

November
1998

PUBLIC SERVICE COMMISSION OF WISCONSIN



Staff Report on Telecommunications Utility Price Regulation Docket 05-TI-174

November 19, 1998

PUBLIC SERVICE COMMISSION OF WISCONSIN

Staff Report on Telecommunications Utility Price Regulation Docket 05-TI-174

Public Service Commission of Wisconsin
610 North Whitney Way
P.O. Box 7854
Madison, Wisconsin 53707-7854
Phone 608.266.5481 • Fax 608.266.3957 • TTY 608.267.1479
E-mail: pscsecs@psc.state.wi.us
Home Page: <http://www.psc.state.wi.us>

The views and opinions stated herein are those of the authors and do not necessarily reflect the views, opinions, or policies of the Public Service Commission of Wisconsin.

The following staff contributed to the preparation of this report:

Thomas Ferris, Case Coordinator
Kevin Klingbeil, Audit Manager
Judith Klug, Staff Engineer
Christopher Larson, Advanced Regulatory Auditor
Nicholas Linden, Assistant Administrator
LeAnne Puntney, Program Assistant
Jeffrey Richter, Principal Rate Analyst

Table of Contents

EXECUTIVE SUMMARY1

RESULTS TO DATE1

RECOMMENDATIONS FOR THE FUTURE2

INTRODUCTION4

WIS. STAT. § 196.196.....8

Wis. Stat. § 196.196(1)(a).....8

Wis. Stat. § 196.196(1)(b).....9

Wis. Stat. § 196.196(1)(c).....9

Wis. Stat. § 196.196(1)(e).....10

Wis. Stat. § 196.196(2).....10

Wis. Stat. § 196.196(3).....10

Wis. Stat. § 196.196(4).....10

Wis. Stat. § 196.196(5).....11

Recommendations11

INFRASTRUCTURE DEPLOYMENT AND SERVICE QUALITY14

INFRASTRUCTURE DEPLOYMENT14

SERVICE QUALITY IMPACT20

WIS. ADMIN. CODE CHAPTER PSC 163.....23

COMPETITION.....31

BACKGROUND.....31

COMPETITORS.....33

Competitive Local Exchange Carriers.....33

Resellers.....34

Wireless.....34

Internet Telephony.....34

INTERCONNECTION AGREEMENTS.....35

COMPETITION PROMOTION ACTIONS36

Ameritech Wisconsin.....36

GTE Wisconsin.....36

FCC SURVEY.....37

EQUAL ACCESS.....37

COMPLAINTS.....39

CONCLUSION.....40

RECOMMENDATIONS.....40

ECONOMIC DEVELOPMENT42

Ameritech Wisconsin.....42

GTE Wisconsin.....43

Conclusion44

PRODUCTIVITY AND EFFICIENCY.....45

QUALITY OF LIFE AND SOCIETAL GOALS47

UNIVERSAL SERVICE.....48

SERVICE TO GEOGRAPHICAL AREAS WITH DIVERSE INCOME OR RACIAL POPULATIONS49

CUSTOMER IMPACT.....51

SATISFACTION51

RATES.....55

CONSUMER CHOICE.....58

SERVICES.....58

ASSISTANCE PROGRAMS.....59

ACCOUNTING, FINANCIAL REPORTING AND MONITORING, AND FINANCIAL RESULTS.....61

RATE OF RETURN MONITORING REPORTS.....61

Financial Results Under Price Regulation.....62

Rate-of-Return Adder.....64

Interpretation of Financial Results.....65

Future ROR Reports to be Filed With the

Commission.....66

ANNUAL REPORTS70

STATE BASIS (SR) ACCOUNTING AND REPORTING

REQUIREMENT71

WAIVER OF WIS. STAT. § 196.09.....74

ORGANIZATIONAL STRUCTURE AND AFFILIATED INTEREST RELATIONSHIPS..80

AMERITECH WISCONSIN80

Organization Structure.....80

Affiliated Transactions.....83

GTE WISCONSIN84

Organization Structure.....84

Affiliated Transactions.....85

CONCLUSION86

SUMMARY OF RECOMMENDATIONS - STATUTORY87

Part 5-Competition.....87

**SUMMARY OF RECOMMENDATIONS – WIS.
ADMIN. CODE.....88**

Part 4-Wis. Admin. Code ch. PSC 16388

**SUMMARY OF RECOMMENDATIONS –
OTHER.....1**

Part 2-Wis. Stat. § 196.196.....1

Part 5-Competition.....1

Part 11-Customer Impact.....2

*Part 12- Accounting, Financial Reporting and
Monitoring, and Financial Results2*

Part 13-Wis. Stat. § 196.09.....2

APPENDICES A THROUGH U

Executive Summary

The Commission is directed by Wis. Stat. § 196.196(1)(g)1. to determine whether it is in the public interest to suspend one or more of the provisions of Wis. Stat. § 196.196(1) as it applies to a price-regulated telecommunications utility, or to approve an alternative regulatory method for that utility. According to Wis. Stat. § 196.196(1)(g), in making a determination, the Commission shall identify: (1) the goals to be achieved; (2) the suspension or method to be approved, and how the decision is expected to help achieve the identified goals; and (3) the criteria to be used to evaluate success of the change.

In compliance with Wis. Admin. Code § PSC 163.06(1), Wisconsin Bell, Inc. (Ameritech Wisconsin) and GTE North Incorporated-Wisconsin operations (GTE Wisconsin) filed a report on July 31, 1998, regarding how competition, economic development, consumer choice, quality of life, societal goals, and universal service have changed during the period in which price regulation has been in effect. On August 31, 1998, the two companies made a presentation regarding their reports to Commission staff and other interested parties.

In accordance with the Notice of Investigation, Technical Conference, Prehearing Conference, and Assessment of Costs in this proceeding, dated April 23, 1998, and the instructions of the Hearing Examiner at the Prehearing Conference of May 12, 1998, the following report presents staff's findings on the impact of price regulation and makes future recommendations. This report is based on analysis of the reports referenced in the preceding paragraph, other information filed before and during price regulation, and responses to staff data requests in this proceeding.

The combined effect of 1993 Wisconsin Act 496 (Act 496) and the Telecommunications Act of 1996 (Federal Act), together with other changes in the industry, make it difficult to sort out the impact of price regulation. Therefore, staff's report makes little effort to isolate the impact of price regulation but rather discusses what has happened to price-regulated companies and the industry since price regulation went into effect.

Results to Date

The first of two basic questions to be answered in this review looks at what has happened since the inception of price regulation to the present. Staff's report concludes that in many ways, price regulation is working in the manner in which it was intended. In other ways, staff believes that price regulation can be improved. Some of the highlights of price regulation during the first four years include:

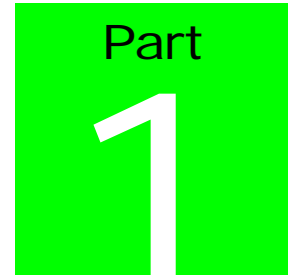
- ◆ Deployment of advanced infrastructure has continued. While commitments have been met, investment per access line has remained at or slightly below prior levels (Part 3).
- ◆ While quality of service has generally remained at pre-price regulation levels, some problems have been encountered (Part 3).
- ◆ While the pace of competition in local telephone service has been steady, it has been slower than many had anticipated (Part 5).
- ◆ Ameritech Wisconsin and GTE Wisconsin have become more productive and efficient (Part 7).
- ◆ While many new products and services have been introduced, there has been no marked increase as compared to periods before price regulation (Part 11).
- ◆ While basic local exchange service rates have been stable, rates for Ameritech Wisconsin's other local services and message telecommunications service (MTS or toll) have increased (Part 12).
- ◆ Ameritech Wisconsin's earnings have increased substantially. This is due to Ameritech Wisconsin's productivity being higher than the formula specified in the statute, and rate increases for non price-regulated services (Part 12).
- ◆ Ameritech Wisconsin and GTE Wisconsin have been the leading contributors to the Wisconsin Advanced Telecommunications Foundation (WATF), contributing approximately \$10 million between them so far. This, and infrastructure investments, represent significant contributions to economic development in Wisconsin. On the negative side, these companies now employ approximately 2,500 less people in Wisconsin than at the start of price regulation (Part 14).

Recommendations for the Future

The other basic question to be answered in this docket is where do we go from here? Are there ways in which price regulation need to be improved? Underlying its analysis, staff considered four vehicles for recommended changes: 1) suspension of one or more provisions of Wis. Stat. §196.196(1); (2) suggested statutory changes for consideration by the legislature; (3) changes to rules contained in Wis. Admin. Code ch. PSC 163, and (4) changes to provisions contained in prior Commission orders. Highlights of staff's recommendations include:

- ❑ Modify Wis. Stat. § 196.196(1)(e) to allow Commission authority to lower prices to reflect significant changes in cost allocations to an essential service, or significant decreases in costs of such services which are outside of the control of the telecommunications utility.
- ❑ Initiate a rulemaking proceeding to modify Wis. Admin. Code ch. PSC 163, to modify and improve the penalty and incentive mechanisms, allow more time for Commission review, and clarify ambiguous language (Part 4).
- ❑ The Commission should put together a team of staff to monitor the level of competition and make periodic reports to the Governor and the Legislature (Part 5).
- ❑ Initiate an investigation to determine whether additional services should be subject to price regulation under Wis. Stat. § 196.196 (1) (Part 11).
- ❑ Streamline the required reporting for Ameritech Wisconsin and GTE Wisconsin (Part 12).
- ❑ Conditionally approve a limited alternative regulation plan for Ameritech Wisconsin to waive Wis. Stat. § 196.09, relating to depreciation guidelines, in accordance with Wis. Stat. § 196.195(12) (Part 13).

Recommendations related to changes in the Wisconsin Statutes, Wisconsin Administrative Code, and other areas associated with price regulation are summarized in Parts 15, 16, and 17.



Introduction

In Executive Order 178, Governor Tommy Thompson created a Blue Ribbon Telecommunications Infrastructure Task Force (Blue Ribbon Task Force) to develop a statewide telecommunications infrastructure vision for Wisconsin. The Blue Ribbon Task Force developed a set of six strategies and fourteen action recommendations to:

1. Manage the transition to a competitive marketplace,
2. Remove barriers to competition and effective use of telecommunications, and
3. Stimulate private sector deployment of enhanced telecommunications infrastructure.

The Blue Ribbon Task Force concluded that a robust communications marketplace is most likely to provide the advanced infrastructure Wisconsin requires. In its report, the Blue Ribbon Task Force stated, “We believe that our challenge lies not in deciding what specific technology, vendor, or physical infrastructure improvement to support, but in removing the barriers that limit Wisconsin’s businesses and residents from receiving the fastest and highest-quality service from a competitive communications marketplace.”¹ The Blue Ribbon Task Force recommended that the Public Service Commission of Wisconsin (Commission) take a proactive role in developing a competitive marketplace and facilitating the introduction of innovative new services. The Blue Ribbon Task Force also recommended that appropriate legislation be enacted to provide this expanded mandate.

Generally effective September 1, 1994, 1993 Wisconsin Act 496 (Act 496) was enacted to implement the recommendations of the Blue Ribbon Task Force. The basic purpose of the legislation was to establish a new regulatory model for telecommunications utilities to facilitate the transition to a competitive marketplace. Act 496 authorizes substantially reduced regulatory review by imposing specific and detailed statutory limitations governing the extent of the Commission’s regulatory authority with respect to telecommunications utilities.

¹ Blue Ribbon Telecommunications Infrastructure Task Force, *Convergence, Competition, Cooperation: The Report of the Governor’s Blue Ribbon Telecommunications Infrastructure Task Force*, (1993), 28.

Act 496 created Wis. Stat. § 196.196, Telecommunications utility price regulation. This section of the Wisconsin Statutes allows local exchange telecommunications utilities to elect to become price regulated. Under price regulation, the focus of regulation shifts from allowable earnings of the utility and the setting of rates designed to allow those earnings, to a cap on prices for basic services offered by the utility and no regulation of earnings. Wis. Stat. § 196.196(1)(c) sets forth a mechanism for determining the amount a price-regulated utility may increase its price-regulated rates or, alternatively, the amount the utility must decrease its rates.

Wis. Admin. Code ch. PSC 163, Telecommunications Utility Price Regulation, was created effective November 1, 1995, to effectuate and implement Wis. Stat. § 196.196(1). The rules promulgated in this chapter determine the procedures for electing price regulation, establish the mechanics of price regulation, set reporting requirements, and create miscellaneous provisions to make more specific the requirements of Wis. Stat. § 196.196(1).

In addition to Act 496, the Telecommunications Act of 1996 (Federal Act), which was signed into law on February 8, 1996, promotes competitive communications markets, with new statutes governing interconnection, pricing standards for interconnection and network elements, procedures for negotiation of interconnection agreements, removal of barriers to entry, possible rural exemptions, and provisions for universal service.

Since the enactment of Act 496, two telecommunications utilities have elected price regulation pursuant to Wis. Stat. § 196.196. These two utilities are Wisconsin Bell, Inc. (Ameritech Wisconsin) and GTE North Incorporated-Wisconsin Operations (GTE Wisconsin). Ameritech Wisconsin elected price regulation effective September 1, 1994. GTE Wisconsin elected price regulation effective January 1, 1995.

Prior to Act 496, Ameritech Wisconsin and GTE Wisconsin operated under rate-of-return regulation where the focus of regulation was on the earnings of the utility and the setting of rates designed to allow those earnings. On July 30, 1987, in docket 6720-TI-102, the Commission issued an order setting a range of rate-of-return for Ameritech Wisconsin. In that order, the Commission set out a formula under which Ameritech Wisconsin would keep earnings, share earnings, and refund earnings depending on the financial performance of Ameritech Wisconsin relative to the range. Effective August 1, 1989, in docket 6720-TR-103, Ameritech Wisconsin returned to traditional rate-of-return regulation with no earnings sharing. Effective October 1, 1990, in docket 6720-TR-104, Ameritech Wisconsin implemented a three-year plan. Under this plan, Ameritech Wisconsin implemented an optional incentive plan that contained a three-year price cap for all rates, with a mandatory reduction in residential rates. The reduction in residential rates was to be effective no later than July 1, 1992. In return, the Commission would not require Ameritech Wisconsin to undergo a full-earnings review until 1994 subject, however, to certain discretionary reopeners. In the interim, the Commission staff would continue to monitor monthly earnings. As a result of Act 496, the three-year plan was terminated effective August 31, 1994.

In docket 2180-TR-100, the Commission determined not to authorize a flexible rate of return for GTE Wisconsin at that time because there was not adequate information to determine the reasonableness of many of the company's affiliated interest transactions and because of the uncertainty concerning access charge issues pending in docket 05-TR-104. In docket 2180-TR-101, the Commission again denied the request for a flexible rate-of-return plan. The Commission did agree to implement a two-year rate stabilization period for GTE Wisconsin. Under this two-year stabilization period, if GTE Wisconsin's return was determined to be excessive, the Commission had the ability to open an investigation. In addition, under this two-year stabilization period, if GTE Wisconsin's earnings were too low or if extraordinary events would have jeopardized the financial viability of GTE Wisconsin, it was given the opportunity to initiate a rate case. In dockets 2180-TR-102 and 2180-TR-103, GTE Wisconsin was again allowed a two-year stabilization period. In docket 2180-TR-102, GTE Wisconsin also proposed a price regulation plan. This plan was severed from this docket and assigned docket 2180-TI-104. GTE Wisconsin subsequently withdrew this plan.

Pursuant to Wis. Stat. § 196.196(1)(g)1., five years after a telecommunications utility elects to become a price-regulated telecommunications utility, the Commission shall hold a hearing to determine whether it is in the public interest to suspend one or more of the provisions of Wis. Stat. § 196.196(1) as it applies to a price-regulated telecommunications utility, or to approve an alternative regulatory method for that utility. According to Wis. Stat. § 196.196(1)(g), in making a determination, the Commission shall identify: (1) the goals to be achieved; (2) the suspension or method to be approved, and how the decision is expected to help achieve the identified goals; and (3) the criteria to be used to evaluate success of the change.

In conjunction with the Commission's current review, Wis. Admin. Code § PSC 163.06(1) provides that price-regulated telecommunications utilities with more than 150,000 access lines in use in this state, electing price regulation before December 31, 1997, shall file a report no later than August 1, 1998, on how competition, economic development, consumer choice, quality of life, societal goals, and universal service have changed during the period in which price regulation has been in effect. The report shall, where possible, include quantifiable data by separate services, demographic groups, and geographic areas, and compare measures of the above factors under price regulation to those measures prior to price regulation. Ameritech Wisconsin and GTE Wisconsin filed their reports on the impact of price regulation on July 31, 1998. On August 31, 1998, the two companies made a presentation regarding their reports to Commission staff and other interested parties.

The Commission initiated this investigation in docket 05-TI-174 for purposes of performing the review of price regulation pursuant to Wis. Stat. § 196.196(1)(g). The Commission's review will include Ameritech Wisconsin and GTE Wisconsin. In accordance with the Notice of Investigation, Technical Conference, Prehearing Conference, and Assessment of Costs in this proceeding, dated April 23, 1998, and the

instructions of the Hearing Examiner at the Prehearing Conference of May 12, 1998, the following report presents staff's findings on the impact of price regulation and makes future recommendations. The combined effect of Act 496 and the Federal Act, together with other changes in the industry, make it difficult to sort out the impact of price regulation. Therefore, staff's report makes little effort to isolate the impact of price regulation but rather discusses what has happened to price-regulated companies and the industry since price regulation went into effect.

Appendix A to this report sets forth a Statement of Purpose, Issues, and Criteria for Analysis which was agreed to by all parties attending the May 12, 1998, prehearing conference. Based on this Statement, the following are the specific issues that will be addressed in this report:

<u>Issue</u>	<u>Report Section</u>
Wis. Stat. § 196.196	Part 2
Infrastructure Deployment and Service Quality	Part 3
Wis. Admin. Code Chapter PSC 163	Part 4
Competition	Part 5
Economic Development	Part 6
Productivity and Efficiency	Part 7
Quality of Life and Societal Goals	Part 8
Universal Service	Part 9
Service to Geographical Areas with Diverse Income or Racial Populations	Part 10
Customer Impact	Part 11
Accounting, Financial Reporting and Monitoring, and Financial Results	Part 12
Waiver of Wis. Stat. § 196.09	Part 13
Organizational Structure and Affiliated Interest Relationships	Part 14
Summary of Staff Recommendations – Statutory	Part 15
Summary of Staff Recommendations – Wis. Admin. Code	Part 16
Summary of Staff Recommendations – Other	Part 17



Wis. Stat. § 196.196

As noted in the Introduction section of this report, Act 496 created Wis. Stat. § 196.196, **Telecommunications utility price regulation**. This section of the Wisconsin Statutes allows local exchange telecommunications utilities to elect to become price regulated. The following discusses what has occurred under the different statutory provisions of Wis. Stat. § 196.196.

Wis. Stat. § 196.196(1)(a)

Wis. Stat. § 196.196(1)(a) establishes those services considered to be price-regulated. Under this subsection, price-regulated services include basic local exchange services as defined in Wis. Stat. § 196.01(1g), standard business access lines and usage by small businesses with no more than three access lines, and basic message telecommunications service (MTS). This subsection also provides that the Commission may include, following notice and opportunity for hearing, other services found to be a necessary component of universal service under Wis. Stat. § 196.218 and advanced telecommunications services essential to the public interest. No new services have been added to the list of price-regulated services since enactment of Act 496.

In docket 6720-TI-113, Ameritech Wisconsin filed a petition to suspend application of Wis. Stat. § 196.196(1) as it pertains to MTS in the state of Wisconsin. In docket 2180-TI-111, GTE Wisconsin also filed a petition to suspend application of Wis. Stat. § 196.196(1) as it pertains to MTS in the state of Wisconsin. In the Commission's orders in these proceedings, the Commission found that effective competition exists for MTS and suspended Wis. Stat. § 196.196(1) to the extent that section regulates the provision of MTS. The result of the Commission's decision in these proceedings effectively relaxes four restrictions on rate changes for MTS:

1. Eliminates a limitation on the amount of increase that a rate element of MTS could be raised in a one-year period. See Wis. Stat. § 196.196(1)(c).
2. Eliminates a limitation on the number of increases that could apply to MTS rates in a year. See Wis. Stat. § 196.196(1)(c).
3. Eliminates the Commission's authority over the structure of the MTS rate schedule for these utilities. See Wis. Stat. § 196.196(1)(d).

4. Eliminates a statutory requirement for prior notice to the Commission and affected customers before implementation of a rate increase. See Wis. Stat. § 196.196(1)(c).²

Wis. Stat. § 196.196(1)(b)

Wis. Stat. § 196.196(1)(b) specifies that each utility that elects price regulation according to Wis. Stat. § 196.196 shall set its initial rates no greater than the rates in effect on the preceding December 31. For Ameritech Wisconsin, which had over 500,000 access lines in Wisconsin when it elected to be price regulated, it was required to reduce its rates for residential access-line service and for single-line business access-line service by at least 10 percent. On September 1, 1994, Ameritech Wisconsin reduced its flat rate for residential service from \$6.00 per month to \$5.40 per month and single-line business access-line service from \$16.50 per month to \$14.85 per month, amounting to approximately \$14 million of annual revenues.

Wis. Stat. § 196.196(1)(c)

Wis. Stat. § 196.196(1)(c) specifies that each price-regulated utility shall not increase its rates for price-regulated services other than MTS for a period of three years. This subsection also sets forth a mechanism for annual adjustments to these rates for price-regulated services. The mechanism includes (1) the annual change in the gross domestic product price index (GDPPI), (2) less a specified productivity offset based on the size of the company, (3) less an increase in the productivity offset for inadequate service and/or insufficient infrastructure investment, and (4) plus a decrease in the productivity offset to encourage infrastructure investments. Wis. Stat. § 196(1)(cm) specifies that in making any adjustments to the productivity offset, the Commission should consider the extent of contributions to the Wisconsin Advanced Telecommunications Foundation (WATF).

In the Commission's order in docket 6720-TI-117, dated March 20, 1996, Ameritech Wisconsin was ordered to reduce its rate for MTS by an average of 0.06 percent or approximately \$75,000. In the Commission's order in docket 6720-TI-153, dated October 2, 1998, Ameritech Wisconsin was ordered to decrease its rates for price-regulated services by an average of 1.02 percent or approximately \$2.5 million.

In the Commission's order in docket 2180-TI-108, dated April 11, 1996, GTE Wisconsin was authorized to increase its rate for MTS by an average of 0.63 percent. In the Commission's order in docket 2180-TI-113, dated May 23, 1997, GTE

² Companies are still subject to the notice requirement under Wis. Admin. Code § ATPC 123.04.

Wisconsin was ordered to make no change to rates for MTS other than a carryover of the authorized increase from the first anniversary date. For the remaining price-regulated services, in the Commission's order in docket 2180-TI-123, dated June 8, 1998, GTE Wisconsin was authorized to increase its rates for price-regulated services by an average of 0.09 percent. GTE Wisconsin has so far foregone all of the increases allowed.

Wis. Stat. § 196.196(1)(e)

Wis. Stat. § 196.196(1)(e) allows a price-regulated utility to alter its rate structure or increase rates upon 120 days prior notice to the Commission. The Commission shall issue an order within 120 days after initiating an investigation and following a hearing, approving, rejecting, or modifying the rate change. This subsection limits the extent of the Commission's investigation. No filings have been made under this subsection. As detailed later in this Part, staff recommends that the legislature consider a change to this subsection.

Wis. Stat. § 196.196(2)

Wis. Stat. § 196.196(2), PRICE REGULATION OF INTRASTATE ACCESS SERVICES, requires price-regulated utilities to make specific reductions in rates for intrastate access service. Both Ameritech Wisconsin and GTE Wisconsin have made the required intrastate access service rate reductions. These decreases have totaled approximately \$29 million for Ameritech Wisconsin and \$12.8 million for GTE Wisconsin.

Wis. Stat. § 196.196(3)

Wis. Stat. § 196.196(3), PRICE REGULATION OF OTHER SERVICES, provides that except for specified sections, the Commission may not have jurisdiction over the prices or terms and conditions for the offering of any other services, including new telecommunications services, offered by a price-regulated telecommunications utility. Services covered by this subsection are all services not covered under Wis. Stat. §§ 196.196(1) and (2). Rate changes for these other services are discussed in Part 11 of this report.

Wis. Stat. § 196.196(4)

Wis. Stat. § 196.196(4) involves only telecommunications utilities with less than 150,000 access lines. Therefore, this subsection is not within the scope of the investigation in this proceeding.

Wis. Stat. § 196.196(5)

Finally, Wis. Stat. § 196.196(5) requires that within 60 days of electing price regulation, a utility must file a plan outlining its commitment to invest in telecommunications infrastructure improvements in this state over a period of not less than six years. This subsection specifies what shall be included in each plan. For Ameritech Wisconsin, this includes a commitment to spend an amount of not less than \$700 million within the first five years of the plan. Price-regulated utilities are also required to file progress reports relating to the telecommunications utility's investment in and deployment of infrastructure enhancements. After each of the first two years of price regulation, based on specified criteria, the Commission may reduce the rates for price-regulated services by up to 2 percent.

Ameritech Wisconsin filed an investment commitment plan (ICP) pursuant to Wis. Admin. Code § 196.196(5) on October 31, 1994. On January 25, 1995, in the order in docket 6720-TI-109, the Commission accepted Ameritech Wisconsin's investment commitment plan. GTE Wisconsin filed an ICP pursuant to Wis. Admin. Code § 196.196(5) on March 2, 1995. On May 24, 1995, in the order in docket 2180-TI-106, the Commission accepted GTE Wisconsin's investment commitment plan. Both companies have filed the required annual reports. Neither company had its rates reduced under this subsection.

In connection with the year two review of GTE Wisconsin's infrastructure reports, GTE Wisconsin offered for the Commission's consideration, an update to its original ICP. This update included an additional \$5.5 million total incremental capital investment increase over the normal base investment in outside plant for the years 1997 and 1998, a commitment to deploy certain advance technologies in a total of eight central offices, and a discounted basic access line rate for schools and libraries of up to \$300,000 annually. The Commission accepted GTE Wisconsin's ICP update and determined that no further action be taken under this subsection.³

Recommendations

As discussed in the Introduction to this report, pursuant to Wis. Stat. § 196.196(1)(g)1., the Commission shall hold a hearing within a specified time period to determine whether it is in the public interest to suspend one or more of the provisions of Wis. Stat. § 196.196(1) as it applies to a price-regulated telecommunications utility, or to approve an alternative regulatory method for that utility. Based on its findings, staff does not believe that it is necessary to suspend any provision of Wis. Stat. § 196.196(1). If, however, it is determined that adjustments to the productivity offset for

³ Findings of Fact, Conclusions of Law, and Second Final Order, docket 2180-TI-106, Investigation Into the Price Regulation Election and Investment Commitment of GTE North Incorporated, May 28, 1997.

infrastructure deployment should be eliminated, staff recommends that Wis. Stat. § 196.196(1)(c) be suspended as it pertains to the infrastructure component.

Wis. Stat. § 196.196(1)(g) requires a review of price regulation after five years and any time thereafter, upon complaint or on the Commission's own motion. The initial review of price regulation is the subject of this proceeding in docket 05-TI-174. This initial review of price regulation required an extensive amount of time on the part of all parties in this proceeding. Staff believes that reviews of the level of price regulation should be completed every five years until the transition to competition is completed. This time period may be modified by a party filing a complaint or a major change occurring that justifies a change in the level of regulation for a price-regulated utility. Staff believes that this could be accomplished through the final order issued in this case. In that order, the Commission could state its intent that future reviews will be performed every five years until the transition to competition is complete or unless circumstances justify an earlier review.

In addition to the timing of subsequent reviews, staff believes that it is important to determine the factors that will be considered and the method by which the plan will be evaluated at this time. Staff supports using the list of issues and criteria for analysis that was used in this proceeding for subsequent reviews of price regulation. This list is shown in Appendix A to this report. In addition, the process used in this proceeding should also be used. The process includes the price-regulated telecommunications utilities filing of a report on the impact of price regulation since the last review, staff preparing a report on its findings and recommendations for going forward, parties making other proposals, a hearing process, and a final Commission order.

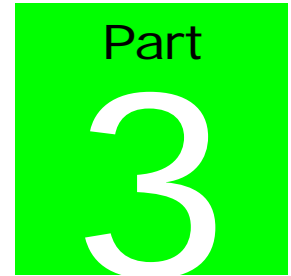
Several significant regulatory changes have occurred since passage of Federal Act. Some of these changes have caused or will soon cause significant shifts in revenue streams or marketing strategy for Ameritech Wisconsin. The following are some examples of actions or situations presenting significant present or future revenue impacts on Ameritech Wisconsin and GTE Wisconsin or their competitors:

- ◆ Federal Communications Commission (FCC) decision to file GTE Wisconsin's interstate asymmetric digital subscriber line (ADSL) dedicated access tariff.
- ◆ Decisions yet to come from the FCC regarding jurisdictional treatment of Internet service provider (ISP) traffic and its implications for current and future reciprocal compensation arrangements on such traffic.
- ◆ Reform of jurisdictional separations (the allocation of costs to the intrastate and interstate jurisdictions).
- ◆ Complaints by interconnecting competitors regarding prices in the resale and interconnection tariffs.
- ◆ The need to assure that non-competitive services bear no more than their appropriate share of joint and common costs under § 254(k).

- ◆ Qualification for interstate Universal Service Fund (USF) funding under the federal cost proxy models.

It is best to let competition in a market drive the proper handling of cost and pricing changes. Where the market is not sufficiently competitive to assure this effect it would be appropriate for the Commission to have authority to address the treatment of such exogenous factors or pricing matters. For instance, the price and costing implications of the GTE Wisconsin's interstate ADSL tariff have yet to be decided at the FCC. The effect will most likely be that a significant portion of costs currently attributed to local service will be distributed to interstate service. Essential services in Wisconsin that could have significant cost reallocations to interstate service may not get price reductions proportionate to the cost shifts because the prices are not indexed to their allocated share of costs, but to broad inflation factors minus a productivity offset.

Significant changes in cost allocations to an essential service should be a trigger for review of a possible exogenous factor adjustment to the price cap index. In order to accomplish this, Wis. Stat. § 196.196(e) would require a revision where in addition to changes to rates proposed by the price-regulated utility, the Commission could initiate a proceeding to reduce rates for these exogenous factors.



Infrastructure Deployment and Service Quality

Wis. Stat. § 196.196(5) requires that within 60 days of electing price regulation, a telecommunications utility must file a plan outlining its commitment to invest in telecommunications infrastructure improvements over a period of not less than six years. Wis. Stat. §196.196(5) specifies that the ICPs should include a description of the levels of investment, availability and expansion of infrastructure, along with deployment of fiber optic facilities to “schools, libraries, technical colleges, hospitals and colleges and universities in this state.” This section of the staff report on price regulation addresses this area of infrastructure investments, improvements, and addition of advanced technology. The section also addresses maintaining network service quality for both price-regulated companies.

Infrastructure Deployment

GTE Wisconsin and Ameritech Wisconsin made commitments for specific infrastructure additions and specific investment dollars in infrastructure under price regulation. For this report, these commitments were reviewed from both a statewide and a regional basis. Appendices B through L illustrate this information. These appendices used data supplied by the price-regulated companies, Commission annual reports, and FCC Automated Records Management Information System (ARMIS) reports. The ARMIS data was shown for Ameritech and GTE price-cap companies in Wisconsin and other Midwest states. All Ameritech Wisconsin data includes the exchanges that are in the process of being sold to Century Telephone Enterprises, Inc. (CenturyTel). Appendix B shows the location of Ameritech Wisconsin and GTE Wisconsin exchanges, including those involved in the sale to CenturyTel. GTE Wisconsin and Ameritech Wisconsin exchanges combined represent somewhat less than one-half of the total exchanges in the state.

Staff noted definite benefits to consumers as the result of the infrastructure investments, additions to technology, and service quality monitoring. The infrastructure benefits provided a generally increased level of infrastructure for all customers in the price-regulated exchanges. There are, however, some areas of concern. These concerns are primarily directed at availability and affordability of broadband applications to both the residential customer and the educational

institutions, and at the consistency of service quality performance results. These benefits and concerns are outlined in the paragraphs that follow.

Overall one of the greatest benefits to customers under price regulation is the companies' focus on investing in specific infrastructure investments. These investments resulted in an increased general level of technology for all price-regulated customers. Once this general level of technology is established, price-regulated companies have the opportunity to provide their customers with the services that ride on this advanced infrastructure and technology.

Four areas of infrastructure are highlighted in this review: digital switching, SS7, integrated services digital network (ISDN), and fiber optic facilities. These technologies are not the only types of investments in advanced technology available; nevertheless, they do represent major categories of investment dollars.

Appendix E and Appendix F document this infrastructure from two perspectives. Appendix E lists infrastructure availability for GTE and Ameritech price cap companies located in the Midwest region. This appendix gives an indication of the infrastructure status for both GTE and Ameritech and uses data for companies across five states. Appendix F concentrated on Wisconsin companies only and notes the progress in infrastructure additions from 1994 through the end of 1997. As noted previously, these tables do not reflect all infrastructure additions, but are meant to be a snapshot of specific areas of infrastructure. Nor are the appendices to be taken as a comparison between companies. Rather the data is intended to show some of the common technologies on which both companies focused their efforts and the individual company's progress in general.

Appendix E used ARMIS data and shows the technology status reported in June of 1997 for a five-state area. The numbers are fairly consistent for this area, especially in the areas of digitally switched access lines and SS7. In most cases, Wisconsin companies have comparable levels in these major areas of infrastructure with other states in the Midwest region.

Digital switching and SS7 are important, though customers do not purchase these directly as services. As noted earlier, this type of infrastructure provides a general level of advanced technology to all customers in all areas of the state. Once this technology is in place, the telephone companies can offer services that require this technology to function. Business and residential customers benefit by having access to advanced services. Caller ID and E911 are examples of advanced technology that can be provided once a general level of technology is installed. Both companies provided information on specific service offerings that were made to customers during the life of the plan.

Appendix F indicates the progression of this technology over a four-year period for the two price-regulated companies. This appendix documents the fact that digital switches and the access lines served by these switches have increased steadily. By year-end 1998, all GTE Wisconsin and Ameritech Wisconsin customers across the state should have digital access lines. These customers should also have a high percentage of SS7 availability.

GTE Wisconsin does have a portion of digital switches for which the manufacturer has only recently provided the SS7 upgrade. GTE Wisconsin is currently testing the upgrades. Staff and GTE Wisconsin are continuing to monitor this situation.

Appendix E indicates that in addition to digital switching and SS7, companies added fiber optic facilities and fiber interoffice trunks to their networks. The last area on the table indicates ISDN and ADSL availability. This is one area of concern to the Commission staff. The table shows that though some progress has been made to expand this service, there are a number of exchanges in the state where this service is not offered. Appendix C indicates the locations of the Ameritech Wisconsin and GTE Wisconsin exchanges where ISDN is available based on the 1997 annual report data. Though there may be some additions in 1998, the map illustrates generally where ISDN was available for these companies in 1997. It is evident that there are areas in the state where ISDN is not in place. Industry data shows that customers would be interested in higher speed and digital service if they were available and affordable.⁴ ISDN can provide this type of service; however, new types of high-speed technology have and are being developed to meet customer needs. These new applications of infrastructure should be considered to meet changing customer needs since they can provide the high-speed data circuits that customers want. An example of this type of service is ADSL, one of the XDSL type services.⁵ GTE Wisconsin's plan considered this under a recent price-regulation review progress report. In this case, ISDN was eliminated as a single infrastructure component due to the emergence of substitute technology. It was changed to include ISDN, ADSL, HDSL or Frame Relay technology to provide customers the high-speed data lines. Acting on this change, GTE Wisconsin will be offering ADSL in the Wausau area in 1998. This type of flexibility within a plan allows the company to plan for and meet customer needs over the five-year period.

In its original ICP, GTE Wisconsin committed to providing the ISDN service based on customer demand. GTE Wisconsin had 102 ISDN lines in use at year-end 1997. This is a fairly new offering and GTE Wisconsin may see some additional growth in ISDN lines in service. There are often high monthly and installation costs associated with supplying this service. This report did not study the cause of slow growth in

⁴ PP11, Transforming the Local Exchange Network, Technology Futures, Inc.

⁵ X is the generic term for Digital Subscriber Line Services.

ISDN demand, whether it is the cost or customer education that affects this growth. In the case of Ameritech Wisconsin, ISDN lines in use are reported confidentially so no discussion will be made. Cost and availability of this type of high-speed data service, however, is an area of concern to the staff and one that should be addressed in future price regulation.

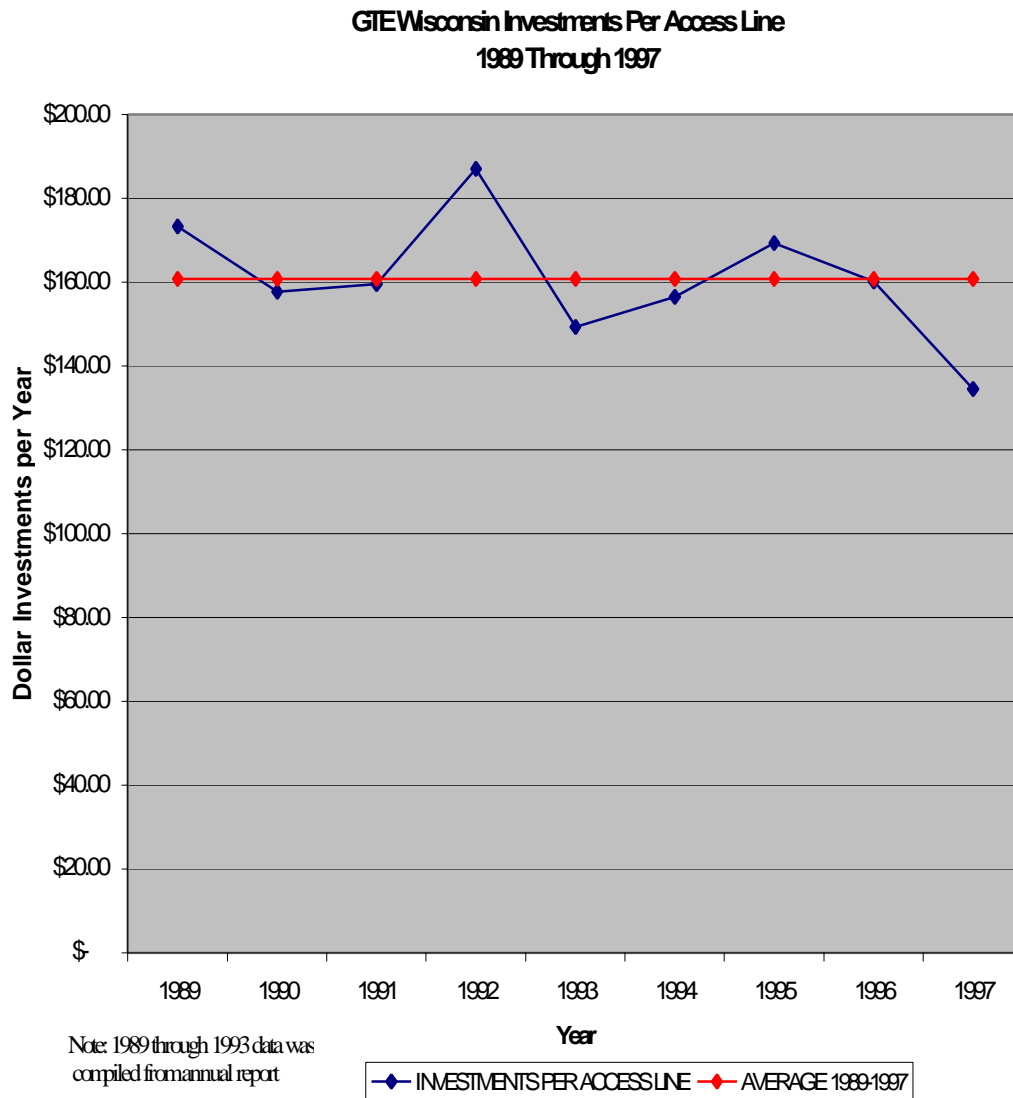
In addition to these major areas of infrastructure, there were additional infrastructure investments that included digital carrier, synchronous optical network standard (SONET) and asynchronous transmission mode (ATM) switching, and local number portability that were not covered in detail here, but did add to the base of infrastructure in place. SONET, as an example, provides a fiber-based high-speed service in addition to providing diverse routes and system reliability to an area.

Staff also reviewed the availability of broadband facilities to schools. GTE Wisconsin and Ameritech Wisconsin supplied Appendices G and H. They provide information on the number of institutions where fiber-to-the-curb facilities are available. The Ameritech Wisconsin appendix notes the number of schools that purchased broadband services. It indicates that approximately 20 percent of facilities in the categories of education, medical, and government are actually using these broadband facilities. Costs in particular may be an issue for the schools purchasing this service. The 1997 report to the legislature reviewed this status of advanced infrastructure to schools and for distance-learning networks. It indicated that once the TEACH⁶ rules are fully implemented, it is expected the amount of schools actually using broadband services will increase dramatically.

This biennial report to the legislature was also used to consider the areas of infrastructure and technology developed under price regulation in relation to the infrastructure trends throughout Wisconsin. This report is used to keep the legislature informed of the status and types of infrastructure being added in the state. The 1997 report highlighted distance learning and interconnection to libraries. The increase in direct Internet access was reflected in both of these areas along with access to health care. The fact that fiber facilities are in place and available, and there is anticipated increased use of these facilities for many types of data transmission including the Internet, points to the importance of providing accessible and reliable facilities and services to meet customer needs.

The infrastructure described above was based on a specific dollar investment commitment made by both companies. These commitments met the Wis. Stat. § 196.196(5) requirements for providing a plan and level of investment commitment for companies choosing price regulation. The records indicate that both GTE Wisconsin and Ameritech Wisconsin will meet their investment commitments defined

⁶ TEACH refers to "Technology for Educational Achievement" Governor Thompson's Plan for Educational technology into the 21st Century

Graph 3-A

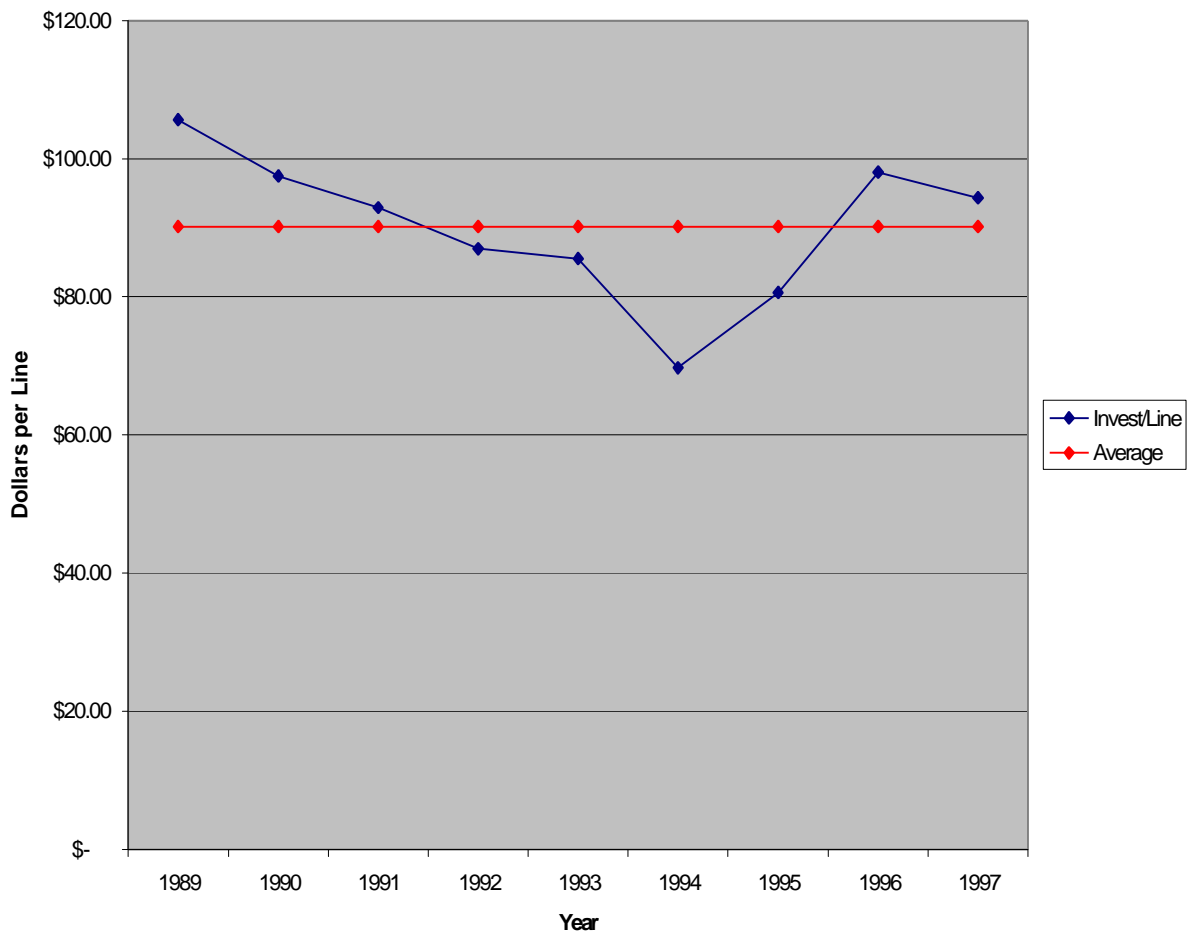
in their original plan. Graphs 3-A and 3-B show the total dollars in plant additions made on a per-line basis for years 1989 to 1997 for both companies. They give an indication of the spending trends before and during price regulation.

GTE Wisconsin's investment per access line was close to the eight-year average for the first three years under price regulation, with a drop off in 1997. This investment per line was also reviewed in relation to four other GTE companies provided under tab 2 of GTE Wisconsin's five-year report and ARMIS data. GTE Wisconsin's investment per line in Wisconsin was comparable to other states in which GTE North operates.

The Ameritech Wisconsin graph that follows shows the investments per line for Ameritech Wisconsin for the eight-year period from 1989 to 1997. It was not intended that Ameritech Wisconsin and GTE Wisconsin investments per line should be compared. The intent was to review the spending pattern over a time period for Wisconsin and the four other states in the Ameritech region.

Graph 3-B

**Ameritech Wisconsin Investments Per Access Line
1989 Through 1997**



Ameritech Wisconsin had a lower-than-average investment in the first two years of price regulation. However, the spending per line increased in 1996 and 1997. In comparison with ARMIS data for the other four Ameritech states, this pattern is consistent with the spending pattern in those states.

Both investments per line and total plant in service additions were compared for 1985 to 1997. While the spending on these additions was consistent there was not a substantial increase in spending under price regulation. For example, Ameritech Wisconsin will meet its \$700 million investment commitment prior to the end of the plan. This investment commitment, when viewed over a time period prior to and including price-regulation investment spending, does not represent a significant increase in infrastructure expenditures. As staff has expressed earlier in this section, the fact that investment commitments were made and focused on specific areas of infrastructure across exchanges helped to provide, in most cases, the same level of infrastructure for customers located throughout Wisconsin.

This review of both companies' investment in specific infrastructure and their investment level indicates that a consistent level of infrastructure has been established for the customers of price-regulated companies.

While staff concludes that customers benefited from the infrastructure investments made, there are some concerns in the area of infrastructure. They include the need to address customer choices for high-speed data lines and data speed solutions for customer lines.

System reliability is also a concern that was not addressed in the initial years under price regulation but has become more important as services use SS7 databases. A report to be published under docket 05-TI-171 will look at the status of system reliability in the state. This report will document the status of route diversity in the state.

The continued growth in infrastructure such as SONET rings and fiber to the home would address many of these issues such as data speed and system reliability or diversity. Staff believes that it is important to continue the growth in these types of infrastructure items and that these should be considered in the future under price regulation.

Service Quality Impact

Service quality is a critical piece of the overall impact of price regulation. Staff reviewed the quality-of-service levels for GTE Wisconsin and Ameritech Wisconsin based on yearly service quality benchmarks and a sample of quality of service statistics obtained from both companies. This sample included exchanges ranging in size based on total access lines and location by LATA. This data collected is shown in Appendices I and J. This was sample data for a portion of the exchanges for both companies. Ameritech Wisconsin declined staff's request to supply data for all

exchanges. The company noted that supplying this data would place Ameritech Wisconsin at a competitive disadvantage and was irrelevant to docket 05-TI-174. Therefore, staff requested this sample data as a compromise. This type of sample data was also requested for GTE Wisconsin exchanges. The data is not meant to be representative of all exchanges in the company. Rather, exchanges were sampled based on size and LATA location. It does point to the fact that although benchmarks set may be achieved on a company level there may be exchange areas that do not meet the benchmarks. The areas that do not meet the benchmarks will be masked when calculated with the company-wide figures and those customers may not be receiving the same level of service quality as other customers in the state.

These service quality benchmarks should be met consistently in all areas. Customer benefit would be enhanced by the provision of ubiquitous and consistent service quality in all areas of the state.

The appendices show exchange area company data for four service quality parameters and the benchmarks for that data established under docket 05-TI-157. Analyzing this sample highlighted the fact that there are areas, such as average days to install, where the actual numbers in the exchange are consistent with the benchmark set for the company. There are also areas in both companies where a particular service quality parameter is not consistent for an exchange and exceeds the benchmark. As stated above, it is more of a concern to staff when the exchange exceeds the benchmark and provides less than benchmark service quality for one area over a consecutive time period.

Although GTE Wisconsin and Ameritech Wisconsin reported in different time sequences, patterns do emerge. As noted previously, this sample was not meant as a comparison between companies. Rather the data indicates that each company has exchange areas where particular service quality parameters are below the benchmarks and this should be addressed.

Ameritech Wisconsin data for example shows exchanges where average time out of service is exceeded on a consistent basis, that is the exchange exceeds the benchmark set under price regulation. Staff believes these exchanges where the benchmark is exceeded consistently should be addressed on an individual basis.

A similar situation exists for GTE Wisconsin. The data for troubles per 100 access lines that the company submitted along with previous information on file with the Commission indicated exchanges exceeding the benchmark and in some cases existing Code parameters. GTE Wisconsin numbers have shown improvement in this area. The company has made efforts to correct this situation and has reduced the number of exchanges that exceeded the troubles per 100 access lines parameter.

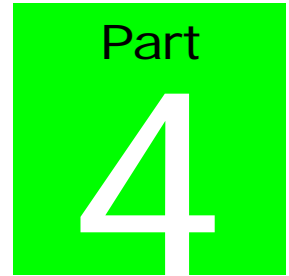
Appendices K and L show the out-of-service trouble reports cleared within a 24-hour period. Wis. Adm. Code § 165.089(2) sets a minimum objective of 95 percent of routine out-of-service troubles cleared within 24 hours of the time such troubles are

reported. GTE Wisconsin's report shows total company numbers, by month, for 1995 through 1998. The percentage cleared within 24 hours has improved somewhat since 1995, though there are months where the Code parameter was not met.

Ameritech Wisconsin's report was based on a summary report of data that has been submitted to the Commission since 1995. Ameritech Wisconsin noted that both routine and non routine totals are included in their numbers while the Code outlines the 95 percent objective based on routine troubles. Though it is not clear how Ameritech Wisconsin measures the company's adherence to this Code parameter, staff used the report data on file. The data indicates that the percentage of troubles restored within 24 hours has shown some improvement, though the 95 percent objective within 24 hours is not being met. Customers do not recognize routine and non routine troubles, however, they are concerned with an out-of-service condition on their phone line.

These areas of concern should be addressed with the goal of establishing more consistent service quality for all customers. Docket 05-TI-157 addresses the issue of changes in standards. This docket proposes the use of statewide standards and adherence to Wis. Admin. Code ch. PSC 165. Staff supports the recommendations that are made in this docket as detailed in Part 4 of this report.

Service quality must be maintained across all exchanges in the state to assure that consistent quality of service is available to all customers.



Wis. Admin. Code Chapter PSC 163

Wis. Admin. Code ch. PSC 163 was created to establish a process to govern implementation of the price-regulation plan specified in Wis. Stat. § 196.196(1). Important features of this process include:

1. Information to be filed when electing price regulation;
2. Mechanics of calculating the allowable annual price increases or required decreases for price-regulated services;
3. Rate increases or rate structure changes independent of the price cap index; and
4. Price-regulation review

The Commission has issued several orders that further implement the mechanisms of price regulation. Industry-wide standards for all price-regulated telecommunications utilities were established in dockets 05-TI-139 and 05-TI-157. Company-specific benchmarks for service quality and infrastructure, as well as allowable price increases or required price decreases were established for Ameritech Wisconsin in dockets 6720-TI-117, 6720-TI-123, 6720-TI-128, and 6720-TI-153, and for GTE Wisconsin in dockets 2180-TI-108, 2180-TI-113, and 2180-TI-123.

As a result of the experience the Commission has gained in applying Wis. Admin. Code ch. PSC 163 in the above-identified dockets staff believes that several improvements to Wis. Admin. Code ch. PSC 163 should be made and recommends that the Commission open a rulemaking docket to address the following:

1. Extension of the time allowed under Wis. Admin. Code § 163.04(8)(a) to calculate the annual allowed rate increase or required decrease.

Currently, Wis. Admin. Code § 163.04(8)(a) states that “The Commission shall issue an order no later than 30 days after the utility’s anniversary date authorizing the amount the utility may increase its rates or mandating the amount it shall reduce them based on the calculated PCI.” In most instances, the Commission has also combined a

determination under Wis. Admin. Code § 163.04(8)(a) with determinations of new company-specific service quality and infrastructure benchmarks, under Wis. Admin. Code §§ 163.04(2)(c)9 and (2)(d)7 into one order. The 30-day deadline may be extended by 30 days if a hearing is held.

These orders have not been as clear-cut or noncontroversial as the rule anticipated. This was especially evident in the recent docket 6720-TI-153. In that docket, the Department of Justice objected to the Commission's decision on a number of issues and complained about the amount of time that was available to respond to comments of Ameritech Wisconsin.

The 30-day timeframe allows very little time for necessary Commission staff analysis, comments from interested parties, or Commission deliberations. If a hearing is requested, 30 days is not enough time to prepare and issue a notice, wait the required minimum of 10 days between notice issuance and hearing commencement, hold a hearing, prepare transcripts, and allow time for briefs, prepare a proposed order, and issue the Commission's decision.

Staff therefore recommends that the 30-day deadline in Wis. Admin. Code § 163.04(8)(a) be replaced with 60 days, and that the provision to allow an additional 30 days if a hearing is held be replaced with 60 days.

2. Modification of the incentive and disincentive mechanism values set forth in Wis. Admin. Code § 163.04(2)(g) to increase the weighting for quality of service and decrease the weighting for infrastructure.

Wis. Stat. § 196.196(1)(c) states in part, that

The commission shall, by rule, create a penalty mechanism for up to a one percentage point decrease in the percentage offset for inadequate service provided by or insufficient investment made by a price-regulated telecommunications utility. The commission shall, by rule, create an incentive mechanism for up to a one percentage point decrease in the percentage offset to encourage infrastructure investment by the price-regulated utility. For a telecommunications utility with more than 500,000 access lines in use in this state at the time of electing to become price regulated, the percentage offset to the change in the gross domestic product price index shall be 3 percentage points and the penalty mechanism and incentive mechanism shall be up to 2 percentage points.

Wis. Admin. Code §§ 163.04(2)(c) through (f) were created to implement this portion of the statutes. Staff believes that, due to other economic factors, much of the infrastructure improvement over the last 4 years would have occurred with or without the price-regulation incentive and penalty mechanism. Staff believes, however, that

there are additional important infrastructure improvements which price-regulated utilities would have no incentive to make in the absence of price-regulation incentives.

Additionally, as stated in Part 3, staff believes that maintenance of quality of service remains a significant concern under price regulation. Staff also does not see any reason that a company with more than 500,000 access lines should receive a higher percentage of incentive or penalty than a smaller company. Staff believes that any lower percentage incentive or penalty is allowed under the statutory provision of “up to 2 percentage points.”

Staff therefore recommends that Table 1 as set forth in Wis. Admin. Code § 163.04(2)(g), be modified as follows:

TABLE 1-1

Penalty and Incentive Mechanism Values

<u>Adjustment Factor</u>	<u>Penalty</u>	<u>Incentive</u>
Quality of service	.8%	N/A
Infrastructure investment	N/A	.8%
Wisconsin Advanced telecommunications foundation	.1%	.1%
Customer Education	<u>.1%</u>	<u>.1%</u>
Total Maximum Value	1.0%	1.0%

The replacement of Commission discretion with a customer education component is explained in item 4, below.

The elimination of penalties relating to infrastructure also eliminates the need for Wis. Admin. Code § 163.04(2)(d)6, relating to waivers of such penalties, and various references to infrastructure penalties throughout Wis. Admin. Code ch. PSC 163. Staff recommends that Wis. Admin. Code § 163.04(2)(d)6, as well as other references to infrastructure penalties, be eliminated from the rules.

3. Redefine the factors to consider and process for establishing infrastructure investment components and benchmarks.

At the start of price regulation, Wis. Stat. § 196.196(5)(a) required each price-regulated utility to file an ICP, detailing its plans over six years. Those plans, filed in late 1994 and early 1995, covered the period through the year 2000, and are discussed further in Part 3. The specificity and the projected dollar amounts of these ICPs declined considerably in the later years. With uncertainty about increasing competition and rapidly changing technology, utilities were unwilling to commit very far into the future. There was no requirement to update these ICPs, and they have therefore lost much of their relevance.

Wis. Admin. Code §§ 163.04(2)(d)1 and 2 required the Commission to establish initial infrastructure investment penalty and incentive components and benchmarks based on a utility's filed ICP and current technology. Wis. Admin. Code § 163.04(2)(d)7 allows the Commission to compute new company-specific infrastructure benchmarks on each anniversary date, based on the prior-year benchmarks and the company's filed progress report. Commission and utility staffs have disagreed over the appropriate investment components and benchmarks for determination of incentives and penalties.

Staff recommends changes to two Wis. Admin. Code subsections to improve the infrastructure benchmark setting process. First, if a price regulated utility wished to be eligible for an infrastructure incentive, it would be required to file on its anniversary date, proposed infrastructure benchmarks to consider in establishing incentives on the next two anniversary dates. The Commission would then review the reasonableness of the proposed benchmarks and approve or modify them. To implement this, staff recommends that Wis. Admin. Code § 163.04(1) be modified to include the filing of proposed infrastructure benchmarks.

Second, modify Wis. Admin. Code § 163.04(2)(d)7 to clarify and redefine the factors the Commission may consider in setting infrastructure benchmarks. The first sentence should be changed to read "On each anniversary date, the commission, following an opportunity for hearing, may compute new company-specific benchmarks based on the prior-year benchmarks, the utility's proposed benchmarks, comparisons with other utilities, and information filed in a company's report on infrastructure deployment as required under s. 196.196 (5), Stats." Two additional sentences should be added immediately after this as follows: The commission shall approve benchmarks that provide incentives for desired improvements for which the utility would otherwise have little economic investment incentives. Areas to be considered include, but are not limited to investments which improve or promote the following: route diversity, high-speed data transmission, competition, and improvements in switching technology.

4. Modify the discretionary incentive and disincentive set forth in Wis. Admin. Code § 163.04(2)(f).

Currently, Wis. Admin. Code § 163.04(2)(f) lists seven factors the Commission may consider in assigning a discretionary penalty or incentive. Due to the number of factors which may be considered and the degree of subjectivity involved, price-regulated companies have had little if any certainty as to how the discretionary incentive or penalty would be computed. This has also made it difficult for staff to develop a recommended discretionary penalty or incentive.

Due to these problems and the increasing importance of telecommunications consumer education, staff recommends that Wis. Admin. Code § 163.04(2)(f) be changed to eliminate the seven factors, and replace them with one: the extent to which the utility has implemented customer education programs. As recognized by many groups, including the Commission's Telecommunications Consumer Education Industry Forum, effective customer education is a key to making competition work.

Staff recommends that each price-regulated utility be required to file a customer education plan on its anniversary date. The Commission would then review such plan and issue an order setting forth a potential incentive or penalty value based on its judgment of how effective the plan will be in keeping customers adequately informed about telecommunications services, prices, and providers. The utility would file the results of its customer education efforts the following year. The Commission would then determine an appropriate level of incentive or penalty based on a review of the results as compared to the plan.

5. Clarify the calculation method for percentage increase in GDPPI set forth in Wis. Admin. Code § 163.04(2)(a).

Controversy arose in several dockets regarding the interpretation of language in Wis. Stat. § 196.196(1)(c) and Wis. Admin. Code § 163.04(2)(a) regarding the calculation of the percentage change in GDPPI. Much of this controversy regarded how to account for the fact that the GDPPI index is frequently revised, not only for the most recent index, but also for previous indices. In order to clarify the ambiguous language of this provision and be consistent with the Commission's interpretations in docket 6720-TI-153, staff recommends that Wis. Admin. Code § 163.04(2)(a) be changed as follows:

On each anniversary date, the annual percentage change in gross domestic price index or [Delta] GDPPI shall be calculated by using the most recent quarterly fixed-weight index and its corresponding prior-year quarterly index, as published in the most recently available Survey of Current Business. If the GDPPI is eliminated, the commission shall by order adopt the most comparable replacement index after comments from interested parties and a hearing, if requested.

6. Redefine and expand quality of service components listed in Wis. Admin. Code § 163.04(2)(c)2.

Wis. Admin. Code § 163.04(2)(c)2 sets forth the following quality of service penalty components:

- a. Responsiveness to customers' requests for service as measured by the average time interval for installation.
- b. Overall network quality as measured by trouble reports per 100 access lines.
- c. Speed of answer as measured by average time out of service.
- d. Repair quality as measured by percent repeat trouble reports.
- e. Responsiveness to customer requests for repair as measured by average employee answer time for repair calls. Average employee answer time means average speed of answer, including time in queue prior to speaking to an employee representative or otherwise receiving assistance.

The Commission may initiate a review of the appropriateness of the quality of service components pursuant to Wis. Admin. Code § 163.04(2)(c)10. In fact, in docket 05-TI-157, the Commission has initiated such a review. Staff and other parties recommend several changes in this docket. While many of these can be accomplished in a Commission order, staff believes that the following should be incorporated into Wis. Admin. Code § 163.04(2)(c):

- 1. Modify Wis. Admin. Code § 163.04(2)(c)2 to create a dual standard utilizing Wis. Admin. Code ch. PSC 165 for Average Time Out of Service and Initial Trouble Reports per 100 Access Lines.
- 2. Modify Wis. Admin. Code § 163.04(2)(c)10 to add a provision that new industry-wide quality of service standards should be based on the experience of Wisconsin companies, in addition to the other factors already set forth in that subsection.

Other staff recommendations in docket 05-TI-157 involve issues of how a median of comparable companies should be computed and if it needs to be adjusted to allow for a “cushion.” The original rules did not address these specifics and staff wishes to leave such specifics out of the rules, thereby retaining flexibility to address individual factual circumstances in Commission orders.

As previously stated, staff believes that maintenance of quality of service remains a significant concern under price regulation. Accordingly, staff recommends that three additional measures for customer satisfaction be added: customer satisfaction, trunk

blockage, and answer speeds for business office calls. The first two are currently reported to the FCC in the ARMIS reports.

While other factors attempt to measure what the Commission thinks is important to customers about their telephone service, there may be no better method than to ask customers directly for their perception. Staff believes that trunk blockage and answer speeds are additional important measurements of service quality. Each of these measures are consistent with measures used by other state Commissions to calculate price-regulation penalties.

Answer speeds for business office calls would measure responsiveness to customer requests for installation, service changes, and billing inquiries. This is an important element of service quality because customers want to be able to receive assistance with orders or questions. Slamming, cramming, and other billing abuses have become a widespread problem, and Ameritech Wisconsin and GTE Wisconsin, as billing companies, are often the first or only point of contact for the customer. Standards for this measurement could be developed based on national standards and data submitted by Ameritech Wisconsin and GTE Wisconsin.

7. Examine productivity for potential change

Wis. Stat. § 196.196(1)(c) states, in part, that

No earlier than 6 years after September 1, 1994, and no more frequently than every 3 years thereafter, the commission may, following notice and an opportunity for hearing, by rule increase or decrease the gross domestic product price index percentage offset by a maximum of one percentage point in any 12-month period to reflect any statewide changes in the productivity experience of the telecommunications industry.

Wis. Admin. Code § 163.04(2)(b) sets forth the factors the Commission may consider in determining any statewide changes in productivity. Wis. Admin. Code § 163.04(2)(bm) states, that

Each time the productivity factors are reviewed, the commission shall provide for a productivity study for the telecommunications industry in this state. If necessary, this study shall be completed by September 1, 2000, and every 3 years thereafter, and shall address the above factors plus additional evidence relative to a utility's ability to increase productivity in the future. The commission shall assess all price-regulated telecommunications utilities for these studies.

Staff does not have a recommendation at this time about whether the productivity factor should be changed. Staff does recommend, however, that the Commission provide for a productivity study as part of the rulemaking docket, since the effective

date of a rulemaking proceeding would not likely be until approximately September 2000.



Competition

Background

Strategy 1 of the Blue Ribbon Task Force report addresses the need to manage the transition to a competitive telecommunications marketplace. In this Strategy, the Blue Ribbon Task Force concluded that the best way to bring the benefits of an enhanced telecommunications network infrastructure to Wisconsin's communities is to ***unleash the forces of competition***. In this regard, Recommendation 1.1 states that the Commission should take a proactive role in developing a competitive marketplace. In addition, the Blue Ribbon Task Force realized that competition would not come to all areas of the state at the same time and, therefore, transition policies will be needed. Recommendation 1.2 of the report provides that during the transition period, regulation should be geared toward facilitating economic development and protecting consumers. According to this recommendation, regulation should be phased out as competition develops.

As indicated in Part 1 of this report, Act 496 was enacted to implement the recommendations of the Blue Ribbon Task Force. The basic purpose of the legislation was to establish a new regulatory model for telecommunications utilities to reflect the transition to a competitive marketplace. According to Wis. Stat. § 196.196(1)(g), in making a determination whether it is in the public interest to suspend one or more of the provisions of Wis. Stat. § 196.196(1) as it pertains to a price-regulated utility or to approve an alternative regulatory method for that utility, the Commission shall identify the goals to be achieved. Consistent with the basic purpose of Act 496, one such goal is the promotion of competition.

According to a report from the National Regulatory Research Institute,⁷ "Competition requires that competitors have sufficient market presence, resources, and commitment to create a workable competitive environment. Competition also requires that there be no unnecessary barriers to market entry and that incumbent firms do not have undue advantages. Finally, competition requires that consumers have sufficient information

⁷ Raymond W. Lawton, Edwin A. Rosenberg, Mary Marvel, and Nancy Zearfoss, *Measuring the Impact of Alternative Regulatory Pricing Reforms in Telecommunications*, (Columbus OH, National Regulatory Research Institute, 1994), 171.

about the availability of services from various providers and that they seek out the best price-performance combination.”

One guide in evaluating the level of competition is the factors set forth in Wis. Stat. § 196.195(2). According to this section of the Wisconsin Statutes, in making a determination as to whether effective competition exists in a market, the Commission shall consider factors including:

1. The number and size of telecommunications utilities or other persons providing the same, equivalent or substitutable service in the relevant market.
2. The extent to which the same, equivalent or substitutable service is available in the relevant market.
3. The ability of customers in the relevant market to obtain the same, equivalent or substitutable services at comparable rates, terms and conditions.
4. The ability of telecommunications utilities or other persons to make the same, equivalent or substitutable service readily available in the relevant market at comparable rates, terms and conditions.
5. The relevant market power of each telecommunications utility or other person providing the same, equivalent or substitutable service in the relevant market and any apparent trends in how the market power of each telecommunications utility may change in the future.
6. Any affiliation of any telecommunications utility providing the service in the relevant market which may affect competition.
7. The existence of any significant barrier to the entry or exit of a provider of the service in the relevant market.

As GTE Wisconsin points out in its report on the impact of price regulation, one difficulty in analyzing markets for competition is that the local exchange carriers (LECs) are not the only providers of telecommunications services. To perform a thorough analysis of competition requires that data be made available from all providers. One source of such data is the annual report which alternative telecommunications utilities are required to file with the Commission. This annual report includes: (1) an income statement, (2) balance sheet, (3) statement of retained earnings, (4) telecommunications plant in service and accumulated depreciation and amortization, (5) operating revenues and number of subscribers, (6) access and billing expenses and expenses related to resale, (7) central office data, and (8) an infrastructure and service quality data request. A review of the 1997 reports filed disclosed that, for the most part, information is incomplete. Problems noted in using this information were: (1) no report filed, (2) information reported on a confidential basis,

(3) information reported on a total corporate basis, and (4) inadequate information provided. The conclusion as a result of staff's review is that the annual reports provided inadequate information to make any useful conclusions. This analysis of what has happened to competition during the time price regulation has been in effect, therefore, is limited to the extent information was available from competitive providers.

According to Ameritech Wisconsin in its report on the impact of price regulation, competition can be direct or indirect. According to Ameritech Wisconsin, direct competition comes in the form of local exchange providers who enter the market by building their own local networks, purchasing unbundled network elements (UNEs) from the incumbent LECs (ILECs), or reselling an ILEC's services. Further, Ameritech Wisconsin maintains that only considering direct competition understates the actual level of competition. Examples of indirect competition are private branch exchanges, very small aperture terminals, and the offering of vertical services such as fax, call waiting, caller ID, voice messaging, e-mail, and data communications services (Internet telephony).

Competitors

One indication of the extent of competition is the number of potential competitors certified to do business in the state of Wisconsin. In evaluating the level of competition one must consider that market behavior may be affected by potential entrants, as well as current competitors. However, there is a difference between the ILEC having competitors and the market being truly competitive. The simple expression of an interest in interconnection is not the same as actually requesting collocation and being willing and able to pay for it. Finally, even if competitors are affiliated with large national firms, those firms may be spreading their resources over many geographic areas, and the ILECs still may have a significant advantage. The following is a discussion of a number of types of direct competitors:

Competitive Local Exchange Carriers

Competitive Local Exchange Carriers (CLECs) have the ability to, and once certified, can offer facility-based local exchange service throughout a LEC-defined exchange. They often compete on a selective basis; that is, they serve the portion of the exchange where it is most economically beneficial. For the most part, larger cities and business areas are targeted for provision of service. These CLECs define their service areas in various ways; they may overlap a LEC serving area but often are not limited to its same boundaries. For the most part, CLECs offer access, private line, and business service. Some residential service is offered, the majority over lines leased from the ILECs. As of September 30, 1998, there were 39 CLECs certified in the state of Wisconsin, including three carriers pursuant to Wis. Stat. § 196.499. All of these CLECs have been certified to provide service in Ameritech Wisconsin's and/or GTE Wisconsin's

service territory. Thirteen of these CLECs have been certified in 1998. Of the total number of CLECs, nine are affiliated with an ILEC including Ameritech Communications of Wisconsin, Inc. (ACI). ACI is only authorized to provide service in GTE Wisconsin's service territories.

In July 1997, Commission staff surveyed all certified CLECs to obtain information on where and how local telecommunications service was impacted by the entry of these competitors. Based on responses from approximately 75 percent of the CLECs, only six of the companies were offering service in 1997. According to the plans of the CLECs surveyed, starting dates for providing service vary from 1997 to the first quarter of 1999. Ten companies reported having, or proposed to have, switching facilities with six reporting that they owned their own switches. Appendix D shows the areas that have or are projected to have competitive local providers for telecommunications service by 1999 based on the 1997 survey.

Resellers

A reseller is a provider that does not own transmission facilities, but obtains communications services from another provider for resale to the public. As of September 30, 1998, there were 420 resellers certified to provide service in the state of Wisconsin. Of the total number of resellers, 363 companies are certified to provide services to businesses and 308 companies are certified to provide residential services. Ninety-nine of the resellers are certified to provide local service and 128 are certified to provide toll service. Of the certified resellers, 37 are affiliated with ILECs including GTE Communications Corporation.

Wireless

Wireless providers are increasingly beginning to compete directly with ILECs, especially for second access lines. Wireless providers include cellular providers and personal communications system (PCS) providers. Currently, according to Commission records, there are 37 cellular providers operating in the state and 5 PCS providers. Since these wireless providers are not required to be certified in this state, the actual number of these wireless providers is unknown.

Internet Telephony

Data communications services are the fastest growing services in telecommunications. While these services are not a perfect substitute for voice services, it is expected that they will become a direct competitor for local service over time. Section 1h of GTE Wisconsin's report on the impact of price regulation shows a list of Internet service providers (ISPs) in the state. Due to market dynamics, this list may not contain every ISP operating in the state. In addition, it is unknown how many of these ISPs are providing Internet telephony in the state.

Interconnection Agreements

With the number of competitors increasing, the Federal Act contained provisions to facilitate the interconnection of these new competitive providers with the networks of the ILECs. Section 251 of the Federal Act (§ 251) specifies the duties and obligations of a LEC to interconnect its network to competing providers. Section 251(a) provides that a telecommunications carrier has the duty to interconnect directly or indirectly with another carrier of telecommunications services. Section 251(b) requires that each LEC has the duty to allow resale of its services, to provide number portability, dialing parity, access to rights-of-way, and to establish reciprocal compensation arrangements for transport and termination of telecommunications. Section 251(c) imposes additional obligations on each ILEC regarding the provision of interconnection and UNEs. Section 251(f)(1) provides that § 251(c) shall not apply to a rural telephone company until it receives a bona fide request for interconnection and the state commission determines that such request is not unduly economically burdensome, is technically feasible, and is consistent with § 254, Universal Service, of the Federal Act. Section 251(f)(2) allows a LEC considered a rural carrier to petition the state commission for a suspension or modification of the requirements of § 251(b) or (c). Section 252 of the Federal Act (§ 252) sets forth the procedures for negotiation, arbitration, and approval of agreements upon receiving a request from a competing provider for interconnection, services, or network elements pursuant to § 251.

As a result of the Federal Act, Ameritech Wisconsin and GTE Wisconsin have signed numerous arbitrated and voluntary agreements providing for the interconnection with competitors. The following table summarizes the agreements signed by Ameritech Wisconsin and GTE Wisconsin.

Table 5-1
Signed Interconnection Agreements

Type of Competitor	# of Agreements	
	Ameritech Wisconsin	GTE Wisconsin
ILEC	2	2
CLEC	21	12
Reseller	1	0
Wireless	12	5
Total	36	19

According to responses to staff data requests, of the above numbers of signed interconnection agreements, 20 have been implemented with Ameritech Wisconsin and 12 with GTE Wisconsin

One major interconnection agreement which is absent from the list is an agreement between GTE Wisconsin and AT&T Communications of Wisconsin, Inc. (AT&T). This arbitration proceeding has been ongoing for over two years. It is hoped that an agreement will be finalized during the first quarter of 1999.

Implementation of the provisions of the Federal Act has been particularly uncertain in the area of UNEs. Litigation is still pending that will ultimately define how UNEs may be used. At issue is whether UNEs must be combined with some portion of a competitor's facilities to provide a service or whether recombined UNEs alone may be used to provide a service. This uncertainty has limited the use of UNEs and consequently one mode of competition. To date only unbundled loops have been purchased, and unbundled local switching has not been purchased by any competitor. Depending on the outcome of litigation, and the effectiveness of competition, Wis. Stats. § 196.219(3) allows this state commission to order additional interconnection and additional unbundling beyond that required by the FCC.

Competition Promotion Actions

While Ameritech Wisconsin and GTE Wisconsin are required to provide interconnection in accordance with the Federal Act, it is important that these companies and other ILECs take action and make investments to facilitate competition. The following is a summary of some of the actions taken by Ameritech Wisconsin and GTE Wisconsin which promote competition in their respective service territories.

Ameritech Wisconsin

In its 1997 annual progress report which is associated with the Ameritech Wisconsin Infrastructure Plan, Ameritech Wisconsin filed confidential information detailing competitive expenditures in such areas as collocation, unbundling, fiber optics, information systems, Ameritech Information Industry Services (AIIS) service centers, AIIS customer response units, network element control centers, and long-term number portability. Regarding number portability, Ameritech Wisconsin held workshops in 1997 for industry members in the affected metropolitan statistical areas (MSAs).

GTE Wisconsin

In its annual price regulation progress report, GTE Wisconsin indicated that it had sponsored a CLEC informational workshop and training session in October of 1997. This session provided information to 15 local industry representatives on how to complete a "local service request" form for ordering resale and loop and port services from GTE Wisconsin. In addition, GTE Wisconsin participated in a Wisconsin State Telecommunications Association sponsored "CLEC seminar" to gain insight into

issues of concern for competitors entering the Wisconsin telecommunications marketplace. Finally, GTE Wisconsin in its progress report reported that it has set up various training sessions for its employees regarding dealing with the new competitors and the new competitive marketplace.

FCC Survey

In CC Docket No. 91-141, the FCC's Common Carrier Bureau issued a public notice seeking comment on a proposed local competition survey. In the public notice, the FCC indicated that it requires timely and reliable information on the pace and extent of development of local competition in different geographic markets to evaluate the effectiveness of decisions made to implement the Federal Act. In addition, the FCC indicated that it requires information to identify services and geographic markets where local competition has developed sufficiently to allow the FCC to exercise its regulatory forbearance authority. As we noted previously, the FCC also has a problem in that it only has a limited amount of information on the state of local competition from current sources of information. In the FCC proceeding, it requested that nine large ILECs submit information on a voluntary basis to facilitate the development of a consistent set of data for analyzing the state of local competition in all areas of the country. In response to the FCC survey, Ameritech Wisconsin and GTE Wisconsin filed information regarding local competition in the state of Wisconsin as of December 1, 1997.

The FCC used the survey responses and comments in response to the public notice to revise and focus questions for a second voluntary survey on the state of local competition as of June 30, 1998. The second survey was sent to the nine large LEC and a number of CLECs. Ameritech Wisconsin and GTE Wisconsin again filed information regarding local competition in the state of Wisconsin as of June 30, 1998. The FCC used the responses to the second survey to refine certain questions in a revised third survey. This survey was sent to the same nine large ILECs and a number of CLECs.

In addition to the number of certified competitors, the number of signed interconnection agreements, and the efforts taken by Ameritech Wisconsin and GTE Wisconsin to facilitate competition, this survey gives the Commission an idea of how much competition has progressed in Wisconsin. However, this information does not tell us how far CLECs have been able to penetrate the market. Appendices M, N, O, and P present the Ameritech Wisconsin and GTE Wisconsin responses to the first two FCC surveys.

Equal Access

Equal access is another important consideration in promoting competition. A promise of equal access, however, is not enough. On July 7, 1994, the Commission issued two orders regarding intraLATA presubscription. In the first order the Commission

determined that competitive provision of intraLATA 0+ and 1+ service was technically feasible; although feasibility, both technical and economic, varied from exchange to exchange across the state. In the second order, the Commission determined that it was in the public interest to implement intraLATA equal access as soon as possible through a process of bona fide requests for implementation and recovery of implementation costs by the local exchange carrier. Following the issuance of these orders, the Commission opened a rulemaking proceeding to establish a procedure under which toll providers could serve a good faith request for intraLATA equal access upon a local exchange company. However, prior to completion of this rulemaking, Act 496 was enacted substantially revising the regulation of telecommunications services in this state. As a result of the changes in regulation of telecommunications services created by that law, the competing intraLATA carriers decided to pursue interconnection of their intraLATA 1+ services on an individual company basis through negotiation, complaint, and petition.

On February 3, 1995, AT&T, MCI Telecommunications Corporation (MCI), Sprint Communications Co., L.P., and Schneider Communications, Inc.,⁸ filed a complaint and petition with the Commission. The complainants sought an order directing Ameritech Wisconsin to implement intraLATA equal access in its local exchanges. On July 26, 1995, the Commission issued its Findings of Fact, Conclusions of Law, Interim Order and First Final Order in docket 6720-TI-111, directing Ameritech Wisconsin to interconnect the complainants' services. On November 21, 1995, the Commission issued its Findings of Fact, Conclusion of Law, and Second Final Order, establishing the schedule by which Ameritech Wisconsin will interconnect the complainants' intraLATA 1+ services in its local exchanges in Wisconsin. This implementation schedule was subsequently amended by an additional order in docket 6720-TI-111, dated June 6, 1996. In accordance with the amended schedule, Ameritech Wisconsin completed implementation of intraLATA equal access on all of its local access lines in Wisconsin on August 31, 1996.

On October 4, 1995, the same complainants filed a Complaint and Petition with the Commission, requesting a similar interconnection order with respect to the local telephone exchanges operated by GTE Wisconsin in Wisconsin.⁹ On July 29, 1996, the Commission issued its Findings of Fact, Conclusion of Law and Order directing GTE to interconnect the petitioners' intraLATA toll services and implement intraLATA equal access in its local exchanges in Wisconsin by January 8, 1997.

⁸ On April 6, 1995, the Commission added Norlight, Inc., as a complainant in docket 6720-TI-111.

⁹ *In the Matter of the Complaint and Petition for an Order Requiring IntraLATA Equal Access in the Exchanges of GTE North, Inc.*, docket 2180-TI-109.

On July 21, 1995, in docket 6720-TI-113, Ameritech Wisconsin petitioned the Commission, pursuant to Wis. Stat. § 196.195, to suspend application of Wis. Stat. § 196.196(1) with respect to the provision of MTS. In its petition, Ameritech Wisconsin asserted that effective competition exists within a relevant market composed of intraLATA toll services. Ameritech Wisconsin argued that suspension of Wis. Stat. § 196.196(1) would serve the public interest by fostering greater price competition in that relevant market. Ameritech Wisconsin also argued that favorable Commission action on its petition would place Ameritech Wisconsin on a more even posture with the other carriers competing in that market. On January 10, 1997, in docket 2180-TI-111, GTE Wisconsin filed a similar petition.

Both requests to suspend application of Wis. Stat. § 196.196(1) with respect to MTS, were approved on a conditional basis. The Commission concluded that effective competition exists in the relevant market and this competition was sufficient to justify a lesser degree of regulation of this market under Wis. Stat. § 196.195. The Commission specifically reserved its authority to reestablish price regulation of MTS, upon a showing that competition is unable to restrain unreasonable rate increases.

In making a decision in these dockets, the Commission found that competition under a lesser degree of regulation will advance the public interest in an efficient, competitively-priced market for intraLATA toll service. In addition, the Commission found that the consuming public is adequately protected from injury stemming from unreasonable rate increases. Finally, the Commission found that, with respect to intraLATA toll service, "consumers are best served by vigorous competition." In dockets 6720-TI-113 and 2180-TI-111, the Commission therefore found that an order reducing the degree of regulation in the intraLATA toll market, will serve the public interest.

Complaints

In evaluating the extent of competition, it is important to review the problems that competitors encounter in attempting to interconnect with the networks of the ILECs. Two tests of the level of problems that competitors are having in offering services that compete with the ILECs are the number of complaints received by the Commission and the dockets opened to investigate complaints regarding violations of interconnection agreements. For the first nine months of 1998, there have been 11 provider-to-provider complaints filed with the Commission against Ameritech Wisconsin and 3 against GTE Wisconsin. These complaints have included customer changes to carrier of choice, interconnection, contracts/agreements, billing, operator service system interfaces, and other miscellaneous complaints. In addition to complaints filed with the Commission, four investigations have been opened against Ameritech Wisconsin and two against GTE Wisconsin alleging violations of the terms of the applicable interconnection agreement. While the overall numbers are not large, each complaint and Commission investigation may represent a substantial delay in

providing competing services. All such delays put the affected competitor at a bigger disadvantage.

To respond to this problem, 1997 Wisconsin Act 218 (Act 218) was enacted relating to enforcement of interconnection agreements by the Commission, protections for users of certain telecommunications services, granting rulemaking authority, and providing a penalty. The Commission has initiated docket 1-AC-181 to develop rules to implement Act 218.

Conclusion

The preceding analysis indicates that the transition to competition has been slow but steady. While the Commission has found that effective competition exists in the MTS market, the extent of competition in the local market is limited with the most competition coming in the larger urban markets and large business customers. In evaluating the exact extent of competition, the Commission is handicapped by the lack of information regarding the competitive providers.

Recommendations

Recommendation 1.1 of the Blue Ribbon Task Force report states that the Commission should take a proactive role in developing a telecommunications marketplace. This recommendation also says that the Commission should provide an annual report to the Governor and Legislature on the progress toward a competitive telecommunications industry. One of the new roles of the Commission according to the Blue Ribbon Task Force report is to assess the degree of competition in telecommunications market sectors and adjust the style of regulation to match the degree of competition.

If a Commission expects competition to develop to its fullest capability, it should provide the room for it to do so. Classifying services as competitive too quickly, however, may keep competition from developing fully. Deregulating services prematurely can strengthen the ILEC by allowing it to maintain considerable market power and may result in only fringe competition developing.

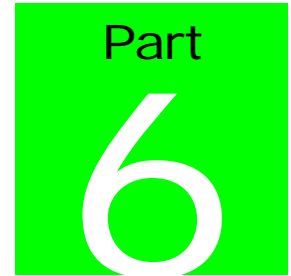
As indicate earlier in this section of the report, staff's evaluation into the level of competition is limited by the amount of information available concerning the operations of the competitive providers. As GTE Wisconsin points out, to perform a thorough analysis of competition requires that data be made available from all providers.

In evaluating the level of competition during the transition period, Wis. Stat. § 196.195(2) provides seven criteria for determining the existence of effective competition. These seven criteria are set forth earlier in this section. These criteria were used in dockets 2180-TI-111 and 6720-TI-113 in finding that effective

competition exists for MTS. To make such an evaluation requires sufficient information regarding all providers. As also discussed previously in this section of the report, information currently available includes: (1) resellers and CLECs certified in Wisconsin; (2) approved interconnection agreements; (3) customer complaints received by the Commission regarding provider-to-provider transactions; (4) complaints filed with the Commission that have resulted in formal investigations being initiated; (5) annual reports filed by alternative telecommunications utilities; and (6) the FCC survey responses regarding local competition.

As can be seen, the Commission has a number of pieces of information available regarding competitors and competition. At this time, however, no staff analysis is performed on a periodic basis. In some cases, there has not been staff follow-up to verify that information is complete and reliable. In addition, some of the current information, such as the FCC surveys, is relatively new and still in the developmental stages. If the Commission is going to adequately monitor the level of competition in order to have sufficient information to determine when the transition to competition is complete, there needs to be periodic formal reviews of the state of competition in Wisconsin.

The Commission should put together a team of staff to monitor the level of competition and make periodic reports to the Governor and the Legislature as called for in the Blue Ribbon Task Force report. This staff team should work with an industry group to determine: (1) what services should be the subject of the review; (2) what information is currently available and how can it be used; (3) what additional information is available; (4) what process should be used for evaluating the level of competition; and (5) what information should be reported to the Governor and Legislature.



Economic Development

The Blue Ribbon Task Force recognized that competition would not come to all parts of Wisconsin at the same time. During the transition period, the Task Force recommended that regulation be geared towards facilitating economic development and protecting consumers. One of the recommended transition policies was to emphasize concern for the goal of economic development in both urban and rural areas. As Ameritech Wisconsin pointed out in its report on the impact of price regulation, "The development of the telecommunications infrastructure is critical both to support and fuel economic growth. The attractiveness of Wisconsin to firms that may locate in the state is affected in important ways by the availability and modernization of the existing network." While it is difficult to measure the impact that efforts by Ameritech Wisconsin and GTE Wisconsin have had on economic development, it is important to discuss some of these efforts.

Ameritech Wisconsin

In its report on the impact of price regulation, Ameritech Wisconsin maintains that price regulation has furthered economic development through the specific infrastructure programs it promoted and through the powerful incentives it created. The extent of Ameritech Wisconsin's infrastructure deployment and network diversity are discussed elsewhere in this report. One important piece of the infrastructure deployment is the dollars spent on enhancements or advanced technology. Ameritech Wisconsin defines core network enhancements as any change in plant, equipment, and/or software that introduces a new technology, topology, or services offering to a specific portion of the network. Enhancements include specific technology commitments, distribution fiber systems, customer specific projects, new product deployment, and business process improvements. Ameritech Wisconsin's original infrastructure deployment commitment included a range of enhancement spending of \$166 million to \$305 million.

In defining the overall spending commitment of \$700 million pursuant to Wis. Stat. § 196.196(5), the Commission excluded dollars spent on software costs that were expensed. Ameritech Wisconsin revised its overall enhancement commitment to factor out expensed software costs. The revised enhancement commitment is \$118 million to \$257 million. It should be noted that there are differences of opinion between Ameritech Wisconsin and Commission staff over the definition of

enhancement and what the overall enhancement commitment should be. The cumulative enhancement expenditures of Ameritech Wisconsin through 1997, based on Ameritech Wisconsin's definition of enhancements has exceeded \$125 million.

Another indication of Ameritech Wisconsin's efforts to facilitate economic development is its contributions to the WATF. The WATF was created in Act 496 to provide funds to facilitate the use of advanced telecommunications technology. Ameritech Wisconsin has been the leading contributor to the WATF. Ameritech Wisconsin's contributions have exceeded \$8 million.

Another indicator of efforts that impact on economic development is the number of business access lines served by Ameritech Wisconsin. Ameritech Wisconsin's business access lines have increased by 26 percent from 1994 to 1997.

Offsetting these positive effects, Ameritech Wisconsin decreased its employees in Wisconsin by 2,103, or approximately one-third, from 1994 to 1997, as described in Part 14 of this report. While this is good for Ameritech Wisconsin's productivity, the loss of jobs has a negative impact on Wisconsin's economic development. Ameritech Wisconsin did contribute to a telecommunications retraining fund as required by Act 496.

GTE Wisconsin

GTE Wisconsin's overall efforts regarding infrastructure deployment and network diversity are discussed elsewhere in this report. GTE Wisconsin has spent over \$54 million on advanced technology from 1995 through 1997. Of the total amount, \$17 million was spent on switch modernization and over \$15 million on interoffice fiber expansion. GTE Wisconsin has been the second leading contributor to the WATF. Through 1997, GTE Wisconsin has contributed \$1,663,000 to the WATF.

To further facilitate economic development, GTE Wisconsin has held a number of informational meetings over the last three years to educate customers in the latest telecommunications technologies. GTE Wisconsin has sponsored five such seminars from 1995 through 1997.

Finally, GTE Wisconsin's business access lines have increased by 29 percent from 1994 to 1997.

Offsetting these positive effects, GTE Wisconsin decreased its employees in Wisconsin by 349, or approximately one-fourth, from 1994 to 1997, as described in Part 14 of this report. While this is good for GTE Wisconsin's productivity, the loss of jobs has a negative impact on Wisconsin's economic development. GTE Wisconsin did contribute to a telecommunications retraining fund as required by Act 496.

Conclusion

We are not able to measure the extent of the impact that efforts on behalf of Ameritech Wisconsin and GTE Wisconsin have had on economic development in Wisconsin. It is evident, however, from the above discussion that both have contributed to facilitating economic development.

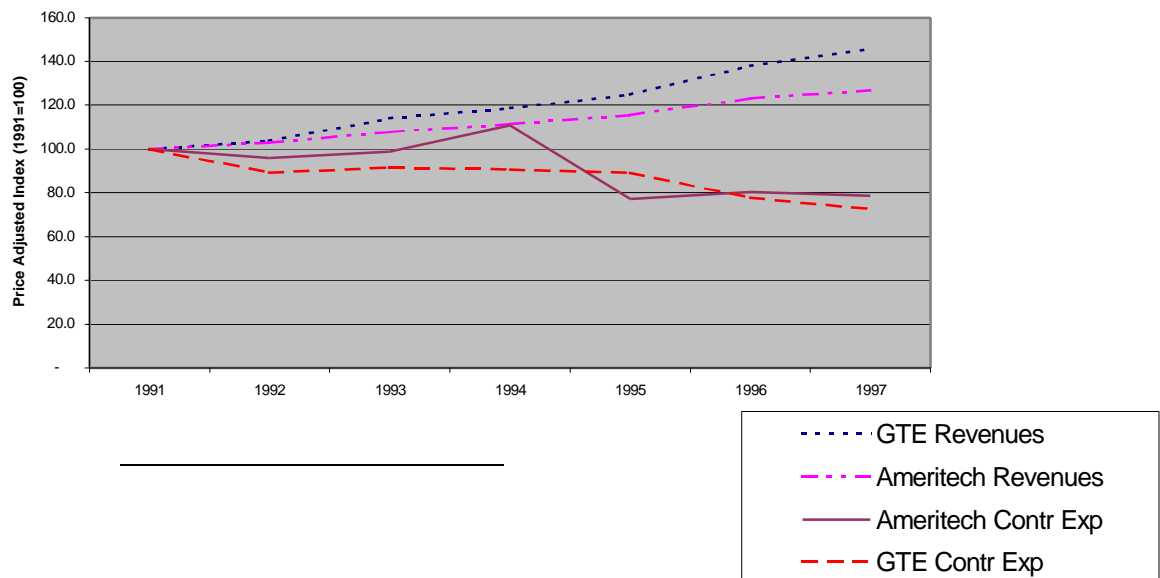
Productivity and Efficiency

It appears that both Ameritech Wisconsin and GTE Wisconsin have become more productive and efficient during the time period price regulation has been in effect. As graphically shown in Graph 7-A, below, GTE has been able to increase the rate of growth of its price-adjusted revenues, from an annual average of 5.9 percent from 1991-1994 to 7.1 percent from 1994-1997. Controllable operating expenses, which had demonstrated an annual average inflation-adjusted decrease of 3.3 percent from 1991-1994, decreased by an annual average of 7.1 percent from 1994-1997.

Ameritech Wisconsin has similarly been able to increase its rate of output growth, from an annual average of 3.7 percent from 1991-1994 to 4.4 percent from 1994-1997. Controllable operating expenses,¹⁰ which had demonstrated an annual average inflation-adjusted increase of 3.6 percent from 1991-1994, decreased by an annual average of 11.2 percent from 1994-1997. This trend is exaggerated by large restructuring accruals recorded during 1994.

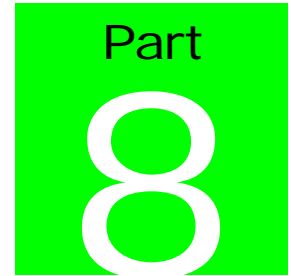
Graph 7-A

Units of Revenue and Expense - Price Adjusted



¹⁰ Controllable operating expenses are defined as total operating expenses, less depreciation, amortization, and taxes.

Graph 7-A is not intended to provide a complete picture of productivity, but is intended to portray major components of productivity. As stated in Part 4, staff recommends that a productivity study be performed to determine whether productivity factors set forth in Wis. Stat. §196.196(1)(c) should be modified, based on any statewide changes in the productivity of the telecommunications industry. This issue is to be addressed as part of a rulemaking docket.



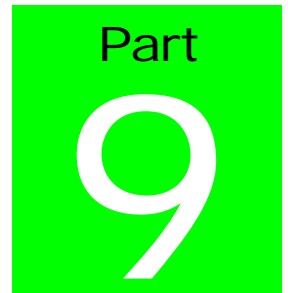
Quality of Life and Societal Goals

In making any changes pursuant to Wis. Stat. § 196.196(1)(g), the Commission shall consider societal goals. In determining what is included under societal goals, one source is the Blue Ribbon Task Force report. Based on the task force report, the following is a list of possible societal goals:

1. All residents of Wisconsin shall have access to an advanced telecommunications infrastructure.
2. All of the state's residents must still be able to access basic telecommunications service at affordable rates.
3. Rely on competition rather than regulation to determine the variety, quality, and price of telecommunications services, when consistent with the public interest.
4. Remove the barriers that limit Wisconsin's businesses and residents from receiving the fastest and highest-quality service from a competitive communications marketplace.
5. Develop a competitive telecommunications marketplace and facilitate the introduction of innovative new services in this competitive marketplace.

This list of possible goals can be broken down into the areas of investment in telecommunications infrastructure improvements and advanced technology, universal service, service quality, competition, and advanced services. Each of these areas is discussed elsewhere in this report.

Telecommunications impacts quality of life in a number of ways. Impacts regarding new services to schools, libraries, hospitals, and other customers are addressed in Part 3 of this report. Quality of life is also affected by customer's satisfaction with their telephone service, as addressed in Part 11. It is difficult to establish a cause and effect between price regulation and these impacts, however. Staff cannot conclude that price regulation has had an overall positive or negative impact on quality of life.



Universal Service

Wisconsin has ranked high in subscribership levels for some time. It has ranked in the top ten states for subscribership since census records were used to track this information. About 80 percent of the state's subscribers are within Ameritech Wisconsin and GTE Wisconsin service territories. The last eight years have seen economic expansion for Wisconsin that is unprecedented in modern times. Such prosperity would commonly be expected to produce expanding subscribership. However, the subscribership statistics for Wisconsin have been steady or slightly declining over the last eight years. So, although the reasons for Wisconsin's persistently high level of subscribership have not yet been identified, we can deduce that price regulation has not likely been a contributing factor for increasing subscribership.

Service to Geographical Areas with Diverse Income or Racial Populations

National survey information reveals that there are populations that have significantly lower subscribership than the average. Ameritech did a region-wide study of subscribership in its inner city service territories and found that Milwaukee ranked highest of all of its urban service territories. The reason for this is also not identified with any precision.

During the last three years Ameritech Wisconsin has been working with the Homicide Reduction Project at the UW-Milwaukee to gather data that would allow for the identification of individual residences in inner-city Milwaukee that are currently without telephone service. This information is sought because phonelessness may be frustrating the delivery of other essential community and social services for these households. In one attempt to identify this population, energy utilities offered to supply the names and addresses of those customers without phone service in their records. These records would have needed to be matched up with Ameritech Wisconsin's database to determine the history of phone service at those residences. Once identified, there are community resources that could be directed to assisting these households to address the reasons for their lack of phone service. Unfortunately, those efforts have not been fruitful. It does not appear that Ameritech Wisconsin is currently directing that its corporate or data resources be used in a manner that might make this information available.

Questions have been raised as to the adequacy of pay telephone service in certain areas with low subscribership. This is considered the option for residents without telephone service in their homes. Since the start of price regulation, both Ameritech Wisconsin and GTE Wisconsin have increased their rates for coin telephone calls from \$0.25 to \$0.35. While this may have made the payphone services more profitable, it has not resulted in an increase in payphone availability. Both Ameritech Wisconsin and GTE Wisconsin have both made significant reductions in the number of public payphones over the last five years. In addition, Ameritech Wisconsin has made several unique restrictions to payphone service in many neighborhoods in the inner city of Milwaukee

and along major traffic arteries, to address the concerns of local politicians and law enforcement agencies over gang and drug related activities centered around payphones. Unfortunately these are often the same neighborhoods where subscribership is chronically lower. Possibly the defining and funding of “public interest payphones” as part of universal service will address the need for payphones or the affordability of payphone use in certain areas where subscribership is persistently lower than the state or national average.

Price regulation has not so far proven successful in engendering actions that specifically address the phone service needs of those residents in areas within its service territory with diverse income and racial populations.

Customer Impact

Much of this report deals with technical issues and effects on Ameritech Wisconsin and GTE Wisconsin. This part attempts to deal with how price regulation has impacted customers and is divided into sections regarding satisfaction, rates, customer choice, and new products and services.

Satisfaction

One way to measure the extent of success of price regulation is to measure customer satisfaction. Staff believes this to be an important measurement since it can measure what is important to the customer, not what others may think is important to the customer. Ameritech Wisconsin and GTE Wisconsin both survey their customers to gauge satisfaction with their installation, repair, and business office, and report the results to the FCC in the ARMIS 43-06 report. These reports are the only source known to staff which measures Wisconsin-specific customer satisfaction for these companies.

Graphs 11-A and 11-B¹¹ shows the percent of customers dissatisfied with Ameritech Wisconsin's and GTE Wisconsin's service in Wisconsin. While overall, ARMIS data shows customer dissatisfaction with Ameritech Wisconsin's service to be fairly level over 1993-1996, there was a significant increase in customer dissatisfaction during 1997. GTE Wisconsin's customer satisfaction results, however, show a steady improvement.

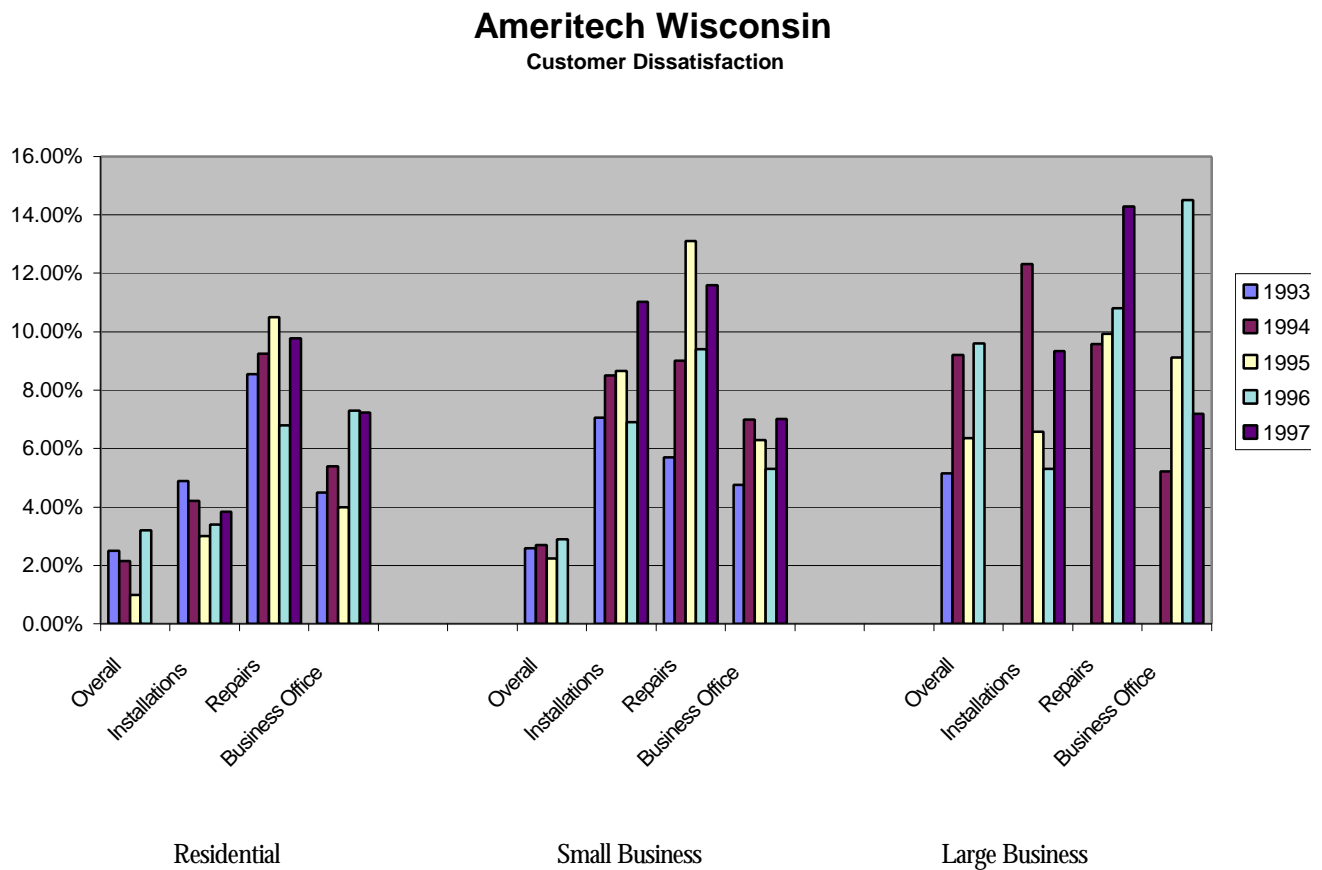
The 1997 results are fairly similar between Ameritech Wisconsin and GTE Wisconsin. According to 1997 ARMIS reports, an average of 7.0 percent of Ameritech Wisconsin's and 6.5 percent of GTE Wisconsin's residential customers were dissatisfied. These results are slightly worse than the national median of 6.2 percent. Small and large business customers were more dissatisfied than residential, with average scores ranging from 8.2 percent for GTE Wisconsin's large business customers to 10.3 percent for Ameritech Wisconsin's large business customers.

There are other surveys that are not specific to Wisconsin, but measure local telephone service customer satisfaction for Ameritech's and GTE's entire service territories. The

¹¹ The overall customer dissatisfaction measure was discontinued by the FCC in 1997.

American Customer Satisfaction Index (ACSI) is an independent national organization that surveys customers of many different industries and companies to measure customer satisfaction. According to ACSI, although customer satisfaction with Ameritech Wisconsin has declined from an ACSI rating of 81 in 1994 to 73 in 1997, this is consistent with an industry-wide trend, and Ameritech Wisconsin's scores remain close to the median.

Graph 11-A

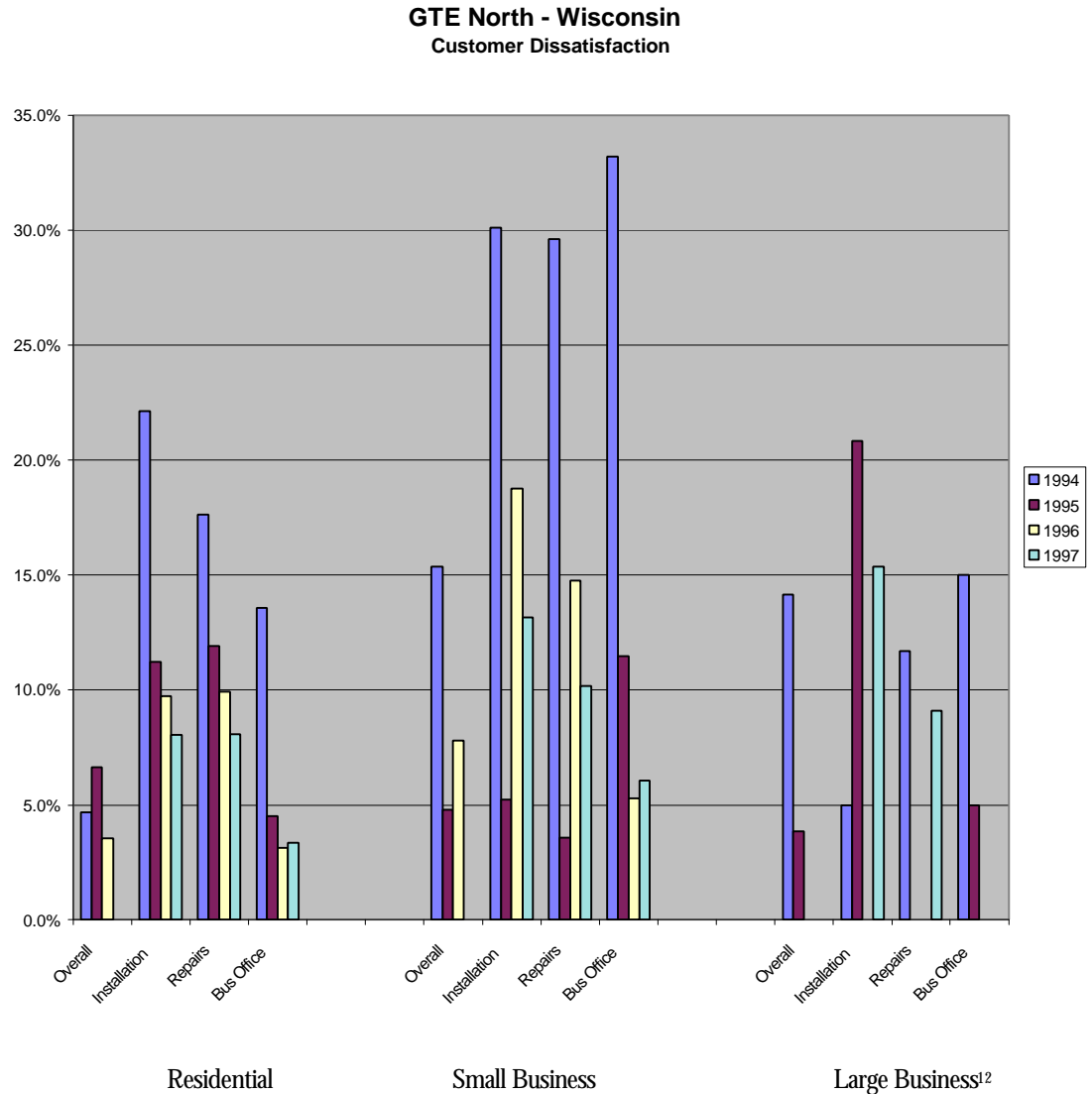


GTE Wisconsin's ACSI rating has dropped from 76 in 1994 to 68 in 1997, and its average score over this period is the lowest among companies surveyed.

J.D Power and Associates is a marketing information firm that also conducts customer satisfaction studies of the telecommunications industry. According to its 1998 Residential Local Telephone Service Satisfaction Study, Ameritech Wisconsin (9.4) and GTE Wisconsin (8.7) rank below the industry average overall customer satisfaction index score of 10.0.

Number of complaints is another measure that can be used to evaluate price regulation. As shown in Table 11-1, the Commission has received substantially more complaints relating to Ameritech Wisconsin and GTE Wisconsin under price regulation than previously. An unknown portion of this increase can be

Graph 11-B



¹² No large business customers surveyed expressed dissatisfaction with GTE Wisconsin for repairs in 1995, and overall in 1996. Sample size was small in each year, and no customers were sampled regarding the business office in 1997.

attributed to increased publicity of the Commission's toll-free number for complaints. GTE Wisconsin started listing the Commission's toll-free complaint number on all disconnect notices in 1994. Ameritech Wisconsin did not take this action until late 1996.

Table 11-1
Customer Complaints³

Complaint Category	1994	1995	1996	1997	Annualized 1998
Ameritech Wisconsin					
Service	77	477	397	353	767
Billing & Tariff	551	800	1,527	2,847	2,025
Safety/Damages/Facilities Locations	9	10	13	12	15
Other	147	239	238	246	105
Total	784	1,526	2,175	3,458	2,912
Access Lines	1,935,000	2,012,000	2,092,000	2,158,000	2,219,000
Complaints per 100 Access Line	0.04	0.08	0.10	0.16	0.13
GTE Wisconsin					
Service	55	97	136	117	212
Billing & Tariff	119	310	421	316	397
Safety/Damages/Facilities Locations	5	1	4	6	3
Other	32	71	123	114	33
Total	211	479	684	553	645
Access Lines	418,000	433,000	450,000	469,000	500,000
Complaints per 100 Access Line	0.05	0.11	0.15	0.12	0.13

Complaints regarding Ameritech Wisconsin increased substantially each year from 1995-1997. The increase in 1997 was affected by a change in collection practices and the publicity of the Commission's toll-free number. Ameritech Wisconsin complaints appear to be down in 1998 so far, but still remain above pre-1997 levels. For GTE Wisconsin, complaints increased from 1994-1996, but decreased in 1997.

In conclusion, it appears that overall, customers have become increasingly dissatisfied with Ameritech Wisconsin's service under price regulation. There are conflicting reports regarding trends in customer satisfaction for GTE Wisconsin. Customers of both companies, however, are more dissatisfied than customers of local exchange companies in other parts of the country.

¹³ Per PSCW Customer Complaint System maintained by the Division of Water, Compliance, and Consumer Affairs.

Rates

In its August 3, 1998, report, Ameritech Wisconsin states that there has been a real (inflation-adjusted) decline in prices of basic residential service. Ameritech Wisconsin's calculations show that the average residential customer's bill for basic local, intraLATA toll, custom calling features, and an imputed cost of interLATA switched access decreased by 4.5 percent from 1994 to 1998, compared to a 10 percent increase in the consumer price index over the same period. It should be noted that the customer does not directly pay for the interLATA switched access. This cost is paid by long distance carriers, who then bill the end users. Staff cannot be certain whether the long distance carriers passed through reductions in interLATA switched access charges to end users.

While relatively stable rates are good news for end users, it is not as good as Ameritech Wisconsin's customers were doing before price regulation. As shown in Table 11-2, Ameritech Wisconsin's real (inflation-adjusted) local service prices decreased by an average of 5.6 percent each year over the period from May 1991 to August 1994. Ameritech Wisconsin's annual local service rates (unadjusted for inflation) over this period were reduced by a total of \$43.9 million. This compares to a total \$6.5 million increase in these services for the period under price regulation from September 1994 to December 1997.

For GTE Wisconsin, local rates are increasing less than the period immediately prior to price regulation. GTE Wisconsin's annual local service rates (unadjusted for inflation) over this period were increased by a total of \$7.35 million during the 3 years prior to price regulation. This compares to a \$0.69 million total increase in these services for the period so far under price regulation. When these changes are adjusted for inflation, GTE Wisconsin's local service prices have decreased by 2.5 percent per year during price regulation, compared with a 0.5 percent average inflation-adjusted decrease before price regulation.

While Ameritech Wisconsin's and GTE Wisconsin's intrastate access rates have decreased more under price regulation than previously, this is due to one-time requirements. When these nonrecurring decreases are eliminated from the comparison, access rates have still decreased, but at a slower pace.

Customers may not fare as well in upcoming years if price regulation statutes and productivity levels remain unchanged. There are no continuing requirements similar to the one-time rate reductions to eliminate the carrier common line charge and the initial required 10 percent reduction in Ameritech Wisconsin's residential rate. For Ameritech Wisconsin and GTE Wisconsin combined, these one-time rate decreases amounted to approximately \$56 million per year. If these one-time decreases are excluded, rates under price regulation have increased for local network ratepayers by \$21 million and decreased by \$21 million for intrastate access.

Further details of calculations contained in Table 11-2 are contained in Appendices Q and R.

Table 11-2
Rate Changes Before and Under Price Regulation

	Local Network	Intrastate Access
Ameritech Wisconsin		
Total rate change (\$000s, non-inflation adjusted)		
5/91-8/94	(43,926)	(15,010)
9/94-12/97	6,484	(44,740)
9/94-12/97 without one- time reductions	20,484	(15,760)
Average annual rate change (% , adjusted for inflation):		
5/91-8/94	(5.6)%	(8.2)%
9/94-12/97	(2.3)%	(25.3)%
9/94-12/97 without one- time reductions	(1.6)%	(10.6)%
GTE Wisconsin		
Total rate change (\$000s, non-inflation adjusted)		
1992-1994	7,350	(12,196)
1995-1997	691	(17,800)
1995-1997 without one- time reductions	691	(5,000)
Average annual rate change (% , adjusted for inflation):		
1992-1994	(0.5)%	(12.6)%
1995-1997	(2.5)%	(19.1)%
1995-1997 without one- time reductions	(2.5)%	(7.3)%

All of the rate increases since the start of price regulation have been to services that are not price regulated. Rates for payphone, directory assistance, custom calling, toll, and large business exchange services have increased. This may indicate that competition is not effectively controlling prices for some of these services and that additional services should be included under price regulation.

The formula and limits set forth in Wis. Stat. § 196.196(1)(c) currently apply only to basic local exchange service for residential customers and businesses with no more than three access lines. A process for bringing additional services under price regulation under Wis. Stat. § 196.196(1) is set forth in Wis. Stat. § 196.196(1)(a)2, which states:

The commission may include, following notice and opportunity for hearing, as part of the services subject to price regulation under this subsection all of the following:

- a. Those services and technological features found by the commission to be a necessary component of universal service under s. 196.218.
- b. Advanced telecommunications services, if the commission finds that the advanced telecommunications service is essential to the public interest; that the advanced telecommunications service, or reasonably equivalent service, is not available at reasonable prices and terms and conditions from alternative providers; and that price regulation of the advanced telecommunications service is essential to the public interest.

MTS was originally covered by the formula and limits set forth in Wis. Stat. § 196.196(1)(c). In orders for Ameritech Wisconsin, effective December 5, 1996, and GTE Wisconsin, effective July 21, 1997, the Commission removed MTS from price regulation limitations. These orders specifically reserved the Commission's authority to reestablish price cap regulation of MTS rates, upon a showing that competition is unable to restrain unreasonable rate increases.

Since their removal from price regulation, through the end of 1997, Ameritech Wisconsin reports that its toll rates have increased by approximately \$6.6 million. These figures do not include changes to MTS rates in April of 1998, and appear to be significantly understated. Based on staff's analysis, there appear to have been substantial increases in MTS rates. Reasons for the differences between the company's numbers and staff numbers are unknown at this time. Toll rates decreased by 1 percent for GTE Wisconsin.

Increases in Ameritech's MTS and basic local large business rates are inconsistent with the perceived level of competition in the intraLATA toll market and prevailing theories that business, toll, and access rates have historically subsidized residential basic local rates. It is hard to understand why rates for services that may have been subsidizing other services, and are now subject to competition, would increase. These increases have not been necessary to increase overall profit margins. As detailed in Part 12, Ameritech has maintained a healthy level of profits under price regulation. Staff

recommends that the Commission open an investigation pursuant to Wis. Stat. § 196.196(1)(a) to determine if any additional services should be added under price regulation.

Consumer Choice

Consumer choice has expanded since the start of price regulation. Beginning in 1996, customers in Ameritech Wisconsin and GTE Wisconsin local service territories now have a choice of intraLATA toll providers.

As detailed in Part 5, choices for local service are not as widespread, but have been increasing. According to Ameritech Wisconsin, its lines have been resold in all but one of its 125 wire centers. Of these 125, 36 wire centers (29 percent) had more than 250 resold lines each. Facilities-based local competition is the slowest form of competition to emerge so far.

Some companies can now offer “one stop shopping”, i.e. local, intraLATA toll from one provider, and interLATA toll, at least on a resale basis. Due to the Federal Act and other changes, it is not possible to say how much of the increase in consumer choice occurred because of price regulation.

Services

Ameritech Wisconsin introduced 75 new products and services over the period from September 1994 to June 1998, an average of 20 per year. This is a modest increase compared to the 41 new products and services introduced over the period from January 1992 to August 1994, an average of 16 per year. Some of the new products and services by Ameritech Wisconsin during price regulation include caller identification with name, SONET, pay-per-use for custom calling features, prepaid calling card, and frame relay.

GTE Wisconsin introduced 10 new services since January 1994. Some of the new products and services by GTE Wisconsin during price regulation include frame relay, ISDN, and service performance guarantee.

Some of the new products and services for both companies represent new pricing options or repackaging of existing services.

The number of new advanced services offered by Ameritech Wisconsin and GTE Wisconsin has increased over the period price caps has been in place. That growth has not been at any faster pace than during the years prior to price regulation. Ameritech has chosen to roll out its advanced services through its separate subsidiary, Ameritech Advanced Data Services (AADS). While not authorized for intrastate service in

Wisconsin,¹⁴ AADS does not appear to have quickened the pace of service roll out over those utilities that have done so without a separate subsidiary, even in the other states in the Ameritech region that have authorized its intrastate operations.

Assistance Programs

Ameritech Wisconsin has voluntarily entered into a Telecommunications Customer Assistance Program (TelCAP) pilot. Under that plan, Ameritech Wisconsin is responsible to make available phone service to customers with chronic or acute payment problems at the highest level they can achieve and still pay off past-due amounts. In this effort, Ameritech Wisconsin has a referral process to direct customers to community-based assistance programs that can set up payment programs that will balance their telecommunications needs with their need for other essential services, like electricity and heating fuel. Along with this TelCAP pilot, Ameritech Wisconsin was authorized to institute a late payment fee for delinquent accounts and required to set up an amnesty program for individuals with outstanding delinquent balances. The target of this pilot program is to achieve fewer disconnections and keep customers at the highest level of service sustainable for a household.

The initial effect of the TelCAP pilot was not pronounced. Following significant Commission oversight and direction, it has subsequently caused an approximate 50 percent reduction in the level of disconnections and also significantly reduced the monthly level of write-off of uncollectible accounts. Price regulation has not been an impediment for Ameritech Wisconsin to involve itself in a TelCAP pilot, it has, however, been able to collect over \$1.3 million in late-payment fees as a result of the TelCAP pilot authorization.

The FCC made changes to the Lifeline and Link-Up assistance programs, as a result of universal service rulemaking pursuant to the Federal Act. Those new rules became effective on January 1, 1998. The minimum monthly Lifeline credit level rose to \$5.25 and only minor changes were made to the Link-Up program. This has made Ameritech Wisconsin's Usage Assistance Credit (UAC) (\$0.01 per call assistance on all calls from 200 to 1200 monthly) less significant than the new flat monthly assistance for most customers. In response, Ameritech Wisconsin filed to withdraw its UAC program; however, timing issues and the pending rulemaking for state universal service programs have caused Ameritech Wisconsin to reconsider and to leave the UAC program in place. The federal change also significantly increased GTE Wisconsin's flat monthly Lifeline credit. The FCC mandated these changes, so price regulation is not implicated in any increase in participation.

¹⁴ At the open meeting of November 5, 1998, the Commission tentatively determined to give AADS temporary authorization to operate by Commission order in docket 7825-TI-100.

The Universal Service Fund Council, which advises the Commission on universal service matters, has identified that there has been insufficient promotion of the Lifeline and Link-up programs, and has recommended changes to remedy this deficiency. Although local exchange service providers are required to make information about these programs available to customers when service is requested or moved, prior to 1998, these providers had to contribute 25 percent of the Lifeline and Link-up support benefits. This financial obligation, combined with price regulation, may have contributed to the lack of vigorous promotion of these programs by GTE Wisconsin and Ameritech Wisconsin.

Accounting, Financial Reporting and Monitoring, and Financial Results

Rate of Return Monitoring Reports

Wis. Admin. Code § PSC 163.06 states in part:

PSC 163.06 Price regulation review. Pursuant to s. 196.196 (1) (g), Stats., in order to perform a review of price regulation after five years and any time thereafter, the commission needs to implement an effective monitoring program for price-regulated telecommunications utilities. In order to implement an effective monitoring program each telecommunications utility electing to become price-regulated shall file the following information during the period in which price regulation is in effect:

...

- (2) Financial results in summary form, showing revenues, expenses, net investment rate base, capital structure, and rate of return on utility common equity. Reported revenues shall be adjusted to reflect uncollectible accounts directly written off, net of collections of previously written off accounts. This information shall be submitted no later than one year after the utility's election to become price-regulated, and annually thereafter.

The specific reporting requirements for Ameritech Wisconsin to file a rate of return monitoring report (ROR report) to implement this requirement were addressed in the Commission's order mailed February 23, 1995, in docket 6720-TI-109, Investigation Into the Price Regulation Election and Investment Commitment of Wisconsin Bell, Inc. These requirements were later streamlined in the Commission's letter order dated February 6, 1997, in the same docket.

For GTE Wisconsin, the requirement for the ROR report was addressed in the Commission's order issued December 23, 1992, in docket 2180-TO-101. The requirements were streamlined in the Commission's letter order dated January 31, 1997, in that same docket.

These ROR reports had been filed in various formats prior to the start of price regulation.

Financial Results Under Price Regulation

Ameritech Wisconsin's reported regulated intrastate return on equity (ROE) is shown in column (b) of Table 13-1. GTE Wisconsin's reported regulated state basis (SR) intrastate ROE is shown in column (b) of Table 13-2. The reported intrastate returns in these tables are the returns associated with all regulated, intrastate services. Neither Ameritech Wisconsin nor GTE Wisconsin were required by the Commission to track the return associated only with the intrastate price-regulated services in that such a requirement would have been, in staff's opinion, burdensome.

As discussed later in this section, the reported returns in column (b) reflect several regulated adjustments. Commission staff's rate-of-return adder in column (c) is also discussed later in this section.

Table 13-1
Ameritech Wisconsin Regulated Intrastate Return on Equity (SR Basis)

Year	ROE	ROE Adder	ROE as adjusted to reflect disallowances
(a)	(b)	(c)	(d)
1992	14.4%	0.0%	14.4%
1993	13.9%	0.0%	13.9%
1/94-8/94	13.6%	0.0%	13.6%
9/94-12/94	(6.8)%	1.4%	(5.4)%
1995	17.4%	3.4%	20.8%
1996	18.6%	3.7%	22.3%
1997	18.1%	6.5%	24.6%
Average 10/90-8/94	13.9%	0.0%	13.9%
Average under price regulation	15.6%	4.2%	19.8%

Table 13-2
GTE Wisconsin Regulated Intrastate Return on Equity (SR Basis)

Year	Adjusted ROE ¹⁵	ROE Adder	ROE as adjusted to reflect disallowances
(a)	(b)	(c)	(d)
1992	12.4%	0.6%	13.0%
1993	12.9%	0.2%	13.1%
1994	13.0%	0.0%	13.0%
1995	12.1%	0.6%	12.7%
1996	10.3%	0.6%	10.9%
1997	12.1%	0.6%	12.7%
Average 1992-1994	12.8%	0.2%	13.0%
Average under price regulation	11.5%	0.6%	12.1%

With respect to rate of return information for 1998, Ameritech Wisconsin is not required to file the 1998 regulatory financial reports until March 31, 1999. Information concerning Ameritech Wisconsin earnings for 1998 is contained in the company's Form 10-Q filed with the U.S. Securities and Exchange Commission for the quarterly period ended June 30, 1998, on an external financial reporting (FR) basis. Unaudited net income for the first six months of 1998 is \$100.4 million as compared to \$109.6 million for the first six months of 1997. Commission staff has not requested a 1998 return on equity update on an SR intrastate basis from the company.

Information concerning GTE North earnings for 1998 is contained in the company's Form 10-Q filed with the U.S. Securities and Exchange Commission for the quarterly period ended June 30, 1998, on an external financial reporting (FR) basis. Unaudited net income for the first six months of 1998 is \$299.5 million as compared to \$334.5 million for the first six months of 1997. Commission staff has not requested a 1998 return on equity update on an SR intrastate basis from the company.

Narrative descriptions of significant items affecting Ameritech Wisconsin's financial reports are shown in Ameritech Wisconsin's reported "Financial Highlights", included at the end of this report as Appendix S. Selected financial statistics for Ameritech Wisconsin are included at the end of this report as Appendix T.

¹⁵ Adjusted based on staff's review of GTE Wisconsin's filings. GTE Wisconsin suggests these adjustments are appropriate per letters dated June 1, 1998, and October 27, 1998.

Rate-of-Return Adder

Ameritech Wisconsin and GTE Wisconsin reflected several regulated adjustments in their regulated SR intrastate returns on equity filed with the Commission (column (b) of Tables 13-1 and 13-2). Regulated adjustments by Ameritech Wisconsin reflect the following: exclusion of Part 64 non-regulated amounts; exclusion of Ameritech Services, Inc. income; exclusion of temporary cash investments interest income; exclusion of charges to account 7370, Special Charges; exclusion of income from sale of properties; exclusion of dividend income associated with a nonutility investment; exclusion of costs (signage changes) related to Wisconsin Bell/Ameritech Wisconsin name change; recognition of work force reduction and restructuring charges; exclusion of interstate portion of bond recall amortization; adjustment of uncollectibles to a net write-off method; and income taxes computed on a “stand-alone” basis.

While numerous regulatory adjustments are reflected in the companies’ reports, these reports are not adjusted for amounts spent on types of expenditures which were (or, in staff’s opinion, should be) disallowed from revenue requirement or earnings monitoring results under rate base rate-of-return regulation.

In the order in docket 6720-TI-109, the Commission stated in part at page 7:

... the Commission finds that rate-of-return information on a regulatory basis is needed. Commission staff is directed herein to develop a rate-of-return adder for internal purposes encompassing disallowances appropriate for this purpose and modify the amount of the adder for future earnings monitoring as conditions warrant.

The purpose of the rate-of-return adder is not to derive an exact rate of return for Ameritech Wisconsin and GTE Wisconsin’s regulated intrastate operations, but rather to derive an approximate figure in accordance with the Commission’s above directive.

Column (c) in Tables 13-1 and 13-2 reflect an ROE adder for Ameritech Wisconsin and GTE Wisconsin, to reflect estimated amounts spent on the types of expenditures disallowed in prior rate cases. Such items include certain types of advertising, lobbying, excess charges from affiliates, imputation of directory revenues, public relations, incentive payroll, economic development, dues and memberships, community affairs, nonqualified pensions, sales promotion, officer’s personal expenses, cash surrender value of company-owned life insurance, incremental cost of excess fiber, and the

dividend tax benefit associated with the Leveraged Employee Stock Ownership Plan.

Column (d) represents the sum of columns (b) and (c) and is intended to be comparable to the returns authorized under the former rate base, rate-of-return regulation.

Interpretation of Financial Results

Under price regulation, the level of profits is less significant to regulators because the link between prices and profits is broken. Commission staff believes, however, that earnings should continue to play a role in future regulation of Ameritech Wisconsin and GTE Wisconsin. High levels of earnings over an extended period of time above that earned by other providers of similar services may be indicative of a lack of competition, raising policy concerns for regulators.

Ameritech Wisconsin's cumulative regulated SR return on equity under price regulation, as adjusted for the ROE adder, was 19.8 percent, as shown in column (d) of Table 13-2. Ameritech Wisconsin's 1997 return on equity exceeds reported 1997 returns for 21 out of 24 of the largest telecommunications companies as reported by Fortune magazine.¹⁶ Ameritech Wisconsin's return also exceeds the 12.2 percent return on equity for 1997 used for setting or evaluating transfer prices between telecommunications utilities and their affiliates as set forth in the Commission's letter order dated January 30, 1997.

Staff believes that Ameritech Wisconsin's relatively high returns are the result of a combination of some or all of the following four factors: (1) Ameritech Wisconsin's productivity before the start of price regulation was greater than the 3 percent specified in Wis. Stat. § 196.196(1)(c); (2) Ameritech Wisconsin's productivity has increased under price regulation; (3) Ameritech Wisconsin has increased rates for non-price regulated services; and (4) Ameritech Wisconsin does not yet face fully effective competition for its services. Factors 1 and 2 are addressed in Part 7, Productivity and Efficiency. Factor 3 is addressed in Part 11, Customer Impact. Factor 4 is addressed in Part 5, Competition.

The reported returns for GTE Wisconsin are not out of line compared to actual or authorized returns prior to price regulation. GTE Wisconsin's 1997 SR regulated return on equity under price regulation exceeds reported 1997 returns for 15 out of 24 of the largest telecommunications companies as reported by Fortune magazine.

¹⁶ Fortune magazine, <http://www.pathfinder.com/fortune/fortune500/ind157.html>.

Future ROR Reports to be Filed With the Commission

As stated above, staff believes that a high rate of return over an extended period of time above that earned by other providers of similar services may be indicative of a lack of competition. Another reason to maintain ROR reporting is that price-regulated telecommunications utilities have the ability to request an increase outside of the price regulation formula pursuant to Wis. Stat. § 196.196(1)(e). Two of the factors that the Commission may consider when evaluating such a requested increase according to this subsection are cost allocations outside of the control of the telecommunications utility to price regulated services and changes in the costs of providing the service that are outside of the control of the telecommunications utility. The ROR reports provide information which could be used by the Commission in such a review.

Therefore, Ameritech Wisconsin and GTE Wisconsin should be directed to continue to file ROR reports with the Commission, albeit in a more abbreviated form. Commission staff's authority to request clarification and/or perform further analysis of the filed information should be preserved. Commission staff recommends that the following items be filed with the Commission on an annual basis, commencing with the 1999 calendar year, by Ameritech Wisconsin:

Table 13-3
Recommended ROR reporting changes for Ameritech Wisconsin

No.	Current Requirement	Suggested Change
1.	Financial Highlights	Continue to provide an overview of major changes in Ameritech Wisconsin's financial situation.
2.	Intrastate AF 6 Report – Regulated SR Return on Equity	Continue to furnish state basis regulated intrastate net income and average utility common equity data (based on a first-of-year and end-of-year average), as well as the resultant regulated SR return on equity for the applicable calendar year and cumulative return from January 1, 1999, through the end of the applicable calendar year.
3.	Intrastate Net Income Summary	Continue.

4.	Average Utility Common Equity	Continue to file this item with the Commission; however, a first-of-year and end-of-year average of utility intrastate common equity should suffice for intrastate earnings monitoring purposes.
5.	Jurisdictional Separations (Worksheet A)	Discontinue Worksheet A in its present form, but instead file the regulated SR intrastate separations percentages used for each income statement and net investment rate base component. Discontinue the 13-month average investment calculation previously required.
6.	Intrastate Income Taxes	Continue to use a stand-alone method for determination of intrastate income taxes for operating and non-operating activities; however, discontinue the filing of the supporting calculations.
7.	Uncollectible Revenue Net Write-off Method	Continue to use the net write off method to determine uncollectible net charge offs for intrastate net income purposes, but discontinue the filing of the supporting calculations.
8.	Ancillary Financial Reports	Continue to file the SR1 Income Statement and Balance Sheet (excluding the two-page back-up report providing monthly income statement and end-of-month balance sheet information), SR35 Report, and MR1 Income Statement and Balance Sheet. Discontinue other ancillary financial reports previously required. (Appendix U)

9.	Electronic Filing of Data	Continue to provide diskette with all EXCEL worksheets, and supporting spreadsheet index, contained in the earnings monitoring report. Three hard copies of the report should also be filed with Commission staff by April 1 of the following year, adjusted to coincide with the filing due date for the incumbent local exchange carrier annual report.
----	---------------------------	---

Staff also recommends that, due to the continuing transition to competition, GTE Wisconsin be relieved from certain requirements for its ROR monitoring report. Staff recommends that the Commission issue an order amending its prior order in docket 2180-TO-101 to reflect the following changes in required monitoring report schedules for GTE Wisconsin:

Table 13-4
Recommended ROR reporting changes for GTE Wisconsin

No.	Current Requirement	Suggested change
1.	Annual return on common stock equity (Wisconsin total and intrastate)	No change
2.	Thirteen month average net investment rate bases showing monthly balances by component (Wisconsin total and intrastate)	Change to rate base by component for beginning of year, end of year, average (Wisconsin total and intrastate)
3.	Calculation of ratio of net investment rate base plus telecommunications plant under construction to capital applicable primarily to utility operations plus accumulated deferred investment tax credit (NIRB/Capital ratio) (GTE North total)	Change to calculation of NIRB/Capital ratio for beginning of year, end of year, average (GTE North total)
4.	Annual income statement showing Wisconsin total unadjusted, adjustment, and adjusted amounts, and intrastate adjusted amounts	No change
5.	Miscellaneous income items by month (Wisconsin total)	Eliminate

6.	Calculation of Federal income taxes (Wisconsin total and intrastate)	Continue to use a stand-alone method for determination of intrastate income taxes for operating and non-operating activities; however, discontinue the filing of the supporting calculations.
7.	Calculation of state income taxes (Wisconsin total and intrastate)	Continue to use a stand-alone method for determination of intrastate income taxes for operating and non-operating activities; however, discontinue the filing of the supporting calculations.
8.	Total company (Wisconsin) income statement schedule by month	Eliminate
9.	Income statement supporting schedules for revenues and expenses by month (Wisconsin total)	Eliminate
10.	Wisconsin balance sheet showing plant related accounts and other accounts with relevant balances attributable to Wisconsin operations (by month)	Eliminate
11.	GTE North total company income statement schedule by month	Annual GTE North total company income statement schedule (eliminate monthly detail)
12.	GTE North income statement supporting schedules for revenues and expenses by month	Eliminate
13.	Calculation of annual costs of debt and preferred stock	Simplify to total interest expense divided by total long and short term debt. Eliminate calculation of annual cost of preferred stock
14.	Calculation of capitalization ratios and weighted costs of debt and preferred stock	Maintain schedule, but eliminate monthly detail and use average of first and end of year.
15.	Financial Highlights	Provide an overview of major changes in GTE Wisconsin's financial situation.

The requirement for GTE Wisconsin to provide a diskette with all EXCEL worksheets should be continued.

Staff believes that the reporting requirements for Ameritech Wisconsin and GTE Wisconsin, as modified above, would fulfill the requirement concerning the "(f)inancial results in summary form" element of an effective monitoring program for a price-regulated telecommunications utility, pursuant to Wis. Stat. § 196.196, as detailed in Wis. Admin. Code § PSC 163.06(2).

Annual Reports

In addition to the ROR reports, Ameritech Wisconsin and GTE Wisconsin, along with all ILECs, are subject to the filing of a balance sheet and other information prescribed by the Commission pursuant to Wis. Stat. § 196.07(1). This is commonly referred to as the annual report.

Due to the decreased importance of earnings information under price regulation as discussed previously, staff recommends that the order in this proceeding direct Ameritech Wisconsin and GTE Wisconsin to file an annual report on an SR basis more akin to that required of cooperatives, effective with the 1999 calendar year. This would eliminate several of the supporting financial schedules currently required. However, staff recommends that these companies also be required to file the following not currently required of cooperatives:

1. The Notes to Income Statement or Balance Sheet schedule (page 9) should be completed due to significant company accounting policy information contained therein.
2. In the Important Changes During the Year schedule (page 13), each company should complete number 5, Estimated increase or decrease in annual revenues due to important rate changes, giving bases of estimates. This information will provide the Commission with rate change information on an annual basis for each company.
3. Complete the Affiliate Abbreviations (page 14), Affiliated Interest Transactions (page 15), and Affiliated Assets and Liabilities (page 16) schedules, due to each company's extensive affiliated interest activity and the Commission's supervisory jurisdiction over affiliated interests per Wis. Stat. § 196.52(5)(b).
4. Accounts Receivable Net Write Offs – Telecommunications (page 17) should be completed in order to populate the Calculation of

Assessable Revenues for Remainder, Department of Justice, and Telephone Relay Assessment Purposes schedule on page 43.

5. Ameritech Wisconsin and GTE Wisconsin would not be required to provide this year amounts associated with the expense matrix subsidiary record categories (salaries/wages, benefits, rents, other, and clearances to or from), similar to treatment accorded to cooperatives.

Commission staff's right to request additional information, if necessary, should also be preserved.

State Basis (SR) Accounting and Reporting Requirement

A number of differences exist among the state, or Commission, basis (SR), the FCC basis (MR), and external financial basis (FR) reporting including, but not limited to, the following areas: depreciation expense and associated accumulated depreciation; unamortized investment tax credits and associated amortization; and associated deferred tax amounts.

Depreciation differences between SR and MR are due to the Commission prescribing different depreciation rates and rules than the FCC. Depreciation on an FR basis is different due to Ameritech Wisconsin and GTE Wisconsin discontinuing the application of Statement of Financial Accounting Standard No. 71 (FAS 71), pertaining to accounting in a regulatory environment, in 1994. Ameritech Wisconsin and GTE Wisconsin booked large amounts of extra depreciation in 1994, in order to catch up for depreciation under previous regulatory guidelines, which had not been rapid enough to allow for consideration of the economic useful lives of assets.

Shown below are Ameritech Wisconsin's respective SR, MR, and FR balances at December 31, 1997, for selected balance sheet items. Similar differences exist for GTE Wisconsin.

Table 13-5
Selected Balance Sheet Items on State, Federal and External Financial
Reporting Bases for Ameritech Wisconsin

Balance Sheet Item	SR Balance at 12/31/97 (millions of \$)	MR Balance at 12/31/97 (millions of \$)	FR Balance at 12/31/97 (millions of \$)
Accumulated Depreciation	1,602.6	1,508.3	1,836.7
Unamortized Investment Tax Credits	20.2	22.6	16.5
Deferred Income Taxes	198.6	243.4	84.6

In the order in docket 6720-TI-109, the Commission stated in part at page 10:

...

a. The company shall continue its compliance with the state basis (SR) accounting and reporting requirement imposed in the Commission's order dated September 5, 1990, in docket 6720-TR-104...

The Commission also stated in part at page 14 of that order:

...

9. Wisconsin Bell, Inc., shall continue its compliance with the state basis accounting and reporting requirement previously imposed on the company in docket 6720-TR-104.

In the Commission's order dated January 31, 1997, in docket 2180-TO-101, the Commission stated in part at page 3:

It is staff's understanding that all of the financial data included in GTE's rate of return monitoring reports is on a pure PSCW basis... the Commission directs GTE to prepare its annual reports on a pure PSCW basis...

In compliance with these orders, the SR basis of accounting and reporting is used by Ameritech Wisconsin and GTE Wisconsin for both the ROR reports and the annual report for ILECs filed with the Commission.

It is Commission staff's understanding that Ameritech Wisconsin and GTE Wisconsin have not requested authorization to discontinue this SR accounting and reporting requirement. Such a request would raise issues relating to how to record entries to transition from SR to FR or MR. An important issue would be whether large depreciation amounts written off upon discontinuance of FAS 71 would potentially be considered a change in cost outside of the

control of the telecommunications utility, pursuant to Wis. Stat. § 196.196(1)(e), and result in large rate increases.

Commission staff informally explored Ameritech Wisconsin's depreciation incentive regulation proposal originally set forth in docket 6720-TI-130, which is discussed further in Part 13, to determine whether Ameritech Wisconsin desired either the FCC (MR) or financial (FR) basis of accounting, rather than the prescribed SR basis. While it may be advantageous to Ameritech Wisconsin from an administrative standpoint for this Commission to be consistent, at least from an accounting perspective, with either the MR or FR basis, Ameritech Wisconsin has not yet, to date, informed staff that it wishes to choose either the MR or FR basis of accounting as an alternative for the jurisdiction of this Commission.

Therefore, absent such requests, it is Commission staff's recommendation that Ameritech Wisconsin and GTE Wisconsin be required to continue SR accounting and associated reporting to this Commission.

Waiver of Wis. Stat. § 196.09

On August 8, 1997, Ameritech Wisconsin filed a petition, pursuant to Wis. Stat. § 196.195(12) for incentive regulation with respect to depreciation rates by seeking suspension of the provisions of Wis. Stat. § 196.09 pertaining to depreciation rates for the utility. A notice dated September 19, 1997, was issued by the Commission in docket 6720-TI-130, Petition of Wisconsin Bell, Inc. (d/b/a Ameritech Wisconsin) for Incentive Regulation with Respect to Depreciation. The notice requested comments on the following: whether the utility's petition is complete in all respects concerning Wis. Stat. § 196.195(12); whether a hearing is necessary and, if so, the reasons why; whether the provisions of Wis. Stat. § 196.195(2) must be considered; and any other comments which should be brought to the attention of the Commission.

Ameritech Wisconsin, GTE Wisconsin, and MCI filed comments in response to the notice. Commission staff prepared a draft notice of hearing and memorandum dated November 20, 1997, recommending that a hearing be held in this proceeding and that such hearing be addressed under Wis. Stat. § 196.195(12) without consideration of the specific provisions of Wis. Stat. § 196.195(2). At its open meeting of February 26, 1998, the Commission directed the Telecommunications Division to address docket 6720-TI-130, Ameritech Wisconsin's petition regarding regulation of its depreciation rates, as part of the Commission's evaluation of price regulation in docket 05-TI-174.

Wis. Stat. § 196.195(12)(b)2. states that the Commission may waive the opportunity for hearing required under Wis. Stat. § 196.195(12)(b)1. with notice to all known interested parties, for any similarly situated telecommunications utility, if the waiver is in the public interest. However, staff believes that since this petition was the Commission's first waiver request under Wis. Stat. § 196.195(12), other than in conjunction with an alternative regulatory plan, and petitioner was a price-regulated entity under Wis. Stat. § 196.196, no similarly situated utilities exist and that a hearing should be held.

In order to effectively focus the testimony to be presented at the hearing in docket 6720-TI-130, staff believed at the time of its memorandum that it was imperative that the Commission render a decision, prior to issuance of the notice of hearing in docket 6720-TI-130, concerning the issue of whether the specific provisions of Wis. Stat. § 196.195(2) apply with respect to this petition. The comments filed in response

to the notice represented diverse opinions on this issue. Ameritech Wisconsin and GTE Wisconsin stated that the provisions of Wis. Stat. § 196.195(2) are not applicable since Wis. Stat. § 196.195(12) when enacted was intended to be independent of Wis. Stat. § 196.195(2). MCI posited that petitioner has the burden of proving that effective competition exists for all of petitioner's services under Wis. Stat. § 196.195(2), in order to obtain the relief requested under Wis. Stat. § 196.195(12).

In staff's opinion, the two statutory subsections are independent of one another based on legislative history. Thus, a waiver request under Wis. Stat. § 196.195(12) does not require a Commission finding that the specific provisions enumerated in Wis. Stat. § 196.195(2) have been addressed. Staff believed that a Commission decision on this issue would facilitate the hearing process and avoid unnecessary testimony for the record in docket 6720-TI-130. If the Commission decided to adopt the position of Ameritech Wisconsin, GTE Wisconsin, and staff, the hearing record would still address whether petitioner's filing is complete concerning the goals to be achieved, the authorized incentive and how it is expected to help achieve the goals, the measurement to be used to evaluate successful attainment of the goals, and petitioner's contributions to the WATF, as set forth in Wis. Stat. § 196.195(12)(b)1. In addition, the hearing record would also address the subject of any conditions on such incentive regulation, if granted by the Commission, as provided for in Wis. Stat. §§ 196.195(12)(c) and 196.195(7). As noted above, the Commission laid over the proposed notice of hearing and memorandum and deferred the issue to docket 05-TI-174.

Ameritech Wisconsin's petition included the following points in support of its filing:

1. It is a price-regulated telecommunications utility under Wis. Stat. § 196.196.
2. Due to the Commission's current limited jurisdiction over prices for telecommunications services for Ameritech Wisconsin, the depreciation rates prescribed by the Commission under Wis. Stat. § 196.09 have no impact on the prices charged by the utility.
3. The utility is not challenging the Commission's orders in various proceedings related to arbitrated interconnection agreements and docket 6720-TI-120 which required that the depreciation rates prescribed by the Commission pursuant to Wis. Stat. § 196.09 be used in establishing Total Element Long Run Incremental Cost (TELRIC) prices for interconnection. However, the utility is not foreclosing the possibility of addressing the appropriateness of any depreciation rates used in any changes in these prices based on future TELRIC studies.

4. The Commission's depreciation rates authorized pursuant to Wis. Stat. § 196.09 are used by Ameritech Wisconsin only in filings with the Commission of its state regulatory financial reports, which are primarily used to track the utility's financial results as if it continued to be a rate-of-return regulated utility. The Commission's depreciation rates are not used for Ameritech Wisconsin's financial reporting, federal regulatory reports, internal accounting, and cost studies other than the TELRIC studies referenced above. Based on these arguments, the utility does not believe that the identified purpose justifies the expenditure of utility and Commission resources to prescribe depreciation rates for Ameritech Wisconsin under Wis. Stat. § 196.09.
5. The other state regulatory commissions regulating Ameritech Wisconsin's affiliates in Illinois, Indiana, Michigan, and Ohio do not prescribe depreciation rates for financial or regulatory reporting purposes except for interconnection prices and cost studies in limited instances. The utility also states that the FCC, which regulates the utility's interstate rates, is contemplating the elimination of depreciation rate prescription pursuant to § 403(d) of the Federal Act.
6. As set forth in Wis. Stat. § 196.195(12)(b), it would be in the public interest for the Commission to suspend the application of Wis. Stat. § 196.09 as it applies to Ameritech Wisconsin.
 - a) The incentive offered to the utility will be the elimination of at least 300 person-hours annually devoted to preparing reports to the Commission based on Commission-prescribed depreciation rates. Such reports have no other internal or external value, and no company which competes with the utility is required to comply with this requirement.
 - b) Ameritech Wisconsin would continue to file regulatory reports with the Commission including the actual depreciation rates used by the utility in its financial reporting.
 - c) The utility has been the leading contributor to the WATF established under Wis. Stat. § 14.38.
 - d) The utility states that there will be no negative impact on the public interest goals of promoting competition, infrastructure deployment, economic development, consumer choice, quality of life, universal service, or any other societal goals. Elimination of unnecessary reporting will promote efficiency,

freeing up resources to provide services to customers consistent with these goals.

7. Use of economic depreciation rates is consistent with economic efficiency, competitive neutrality, and the utility's financial strength. The utility reiterates that no other competitor of Ameritech Wisconsin is required to use Commission-prescribed depreciation rates. The utility further states that there is no continuing purpose that justifies the expenditure of resources to comply with the requirement to use depreciation rates prescribed under Wis. Stat. § 196.09 for Ameritech Wisconsin's regulatory reporting.

Under Wis. Stat. § 196.195(12), the Commission may suspend Wis. Stat. § 196.09 as it applies to Ameritech Wisconsin's request if it is in the public interest. In making this determination, the Commission is required to identify the following items set forth in Wis. Stat. § 196.195(12)(b)1., as shown below:

- a) The goals to be achieved, which may include promoting competition, infrastructure deployment, economic development, consumer choice, productivity, efficiency, quality of life, societal goals or universal service.
- b) The authorized incentive and how the incentive is expected to help achieve the identified goals.
- c) The measurement to be used to evaluate successful attainment of the identified goals.
- d) The extent to which a telecommunications utility has contributed to the WATF established under Wis. Stat. § 14.28.

Commission staff has informally clarified with the company that the intent of the request is to utilize external financial reporting (FR) depreciation rates for SR purposes, but not adopt the FR accumulated depreciation balance for SR reporting purposes. With respect to item (a), Ameritech Wisconsin's estimated annual time savings of 300 person-hours if its request is approved will, in staff's opinion, be significantly diminished (although there will be some time savings) since it intends to continue with SR (rather than FR) reporting to the Commission.

The company states that no negative impact on the public interest goals of promoting competition, infrastructure deployment, economic development, consumer choice, quality of life, universal service, or any other societal goals will occur if its petition is granted by the Commission. Commission staff would contend that staff's own proposal for relief concerning depreciation, if approved by the Commission, would have no impact on these elements. While staff acknowledges that there will be

minimal time savings realized by Ameritech Wisconsin, it would be difficult to verify the company's claimed redirection of resources to provide services to customers.

In addition, while Ameritech Wisconsin has contributed \$6.5 million to the WATF through the end of 1997, Commission staff does not believe that it is appropriate to consider this fact under item (d) above in determining whether or not to grant the requested relief under Wis. Stat. § 196.195(12). The level of the company's contributions to the WATF is one of the factors in the penalty and incentive mechanism set forth in Wis. Admin. Code § PSC 163.04(2)(g).

In spite of the above comments, staff believes that it is appropriate to grant Ameritech Wisconsin (and GTE Wisconsin, if it requests such relief) the ability to use whatever depreciation rates it deems appropriate for Commission annual reporting and intrastate earnings monitoring reporting purposes. This recommendation is dependent upon a finding that the waiver request under Wis. Stat. § 196.195(12) does not require a Commission finding that the specific provisions enumerated in Wis. Stat. § 196.195(2) have been addressed, and is subject to the following conditions:

1. The depreciation accruals recorded by Ameritech Wisconsin for state purposes should, at a minimum, be equal to the minimum individual account and/or subaccount annual depreciation rates and composite range of annual depreciation rates authorized by the Commission in its generic depreciation rate order prescribing, on a biennial basis pursuant to Wis. Stat. § 196.09(9), a range of annual depreciation rates and a composite range of annual depreciation rates for all classes of fixed capital for ILECs. An order was mailed December 18, 1997, by the Commission in docket 05-DT-102; staff anticipates that another generic order (e.g., 05-DT-103) will be issued in 1999 authorizing new rates effective January 1, 1999.
2. The granted depreciation rate relief will only be applicable for the Commission's annual report and intrastate earnings monitoring reporting purposes and will not be considered presumptively lawful for any other purpose.
3. Subject to a showing to the contrary, the individual account and/or subaccount annual depreciation rates and composite range of annual depreciation rates prescribed by the Commission in its generic depreciation rate order, on a biennial basis pursuant to Wis. Stat. § 196.09(9), should be applicable in various arbitrations related to interconnection agreements and Statement of Generally Available Terms and Conditions (SGAT) (e.g., docket 6720-TI-120) used in establishing TELRIC and/or Total Service Long-Run Incremental Cost prices for interconnection and UNEs.

4. Depreciation rates over and above the maximum individual account and/or subaccount annual depreciation rates and composite range of annual depreciation rates authorized by the Commission in its generic depreciation rate order prescribing, on a biennial basis pursuant to Wis. Stat. § 196.09(9), a range of annual depreciation rates and a composite range of annual depreciation rates for all classes of fixed capital for ILECs should not be considered by the Commission, in any context, in its review of a proposed rate change filed by Ameritech Wisconsin under Wis. Stat. § 196.196(1)(e)3.a. through e. (Cost allocations of costs outside of the control of the telecommunications utility to services under Wis. Stat. § 196.196(1)(a); Competition; Network and service quality, improvement and maintenance; Changes in the costs of providing the service that are outside of the control of the telecommunications utility; Impact of the proposed change on the public interest)

Commission staff believes that it is appropriate to impose these conditions considering the current state of competition in the local exchange arena. In addition, if it is determined by the Commission that the waiver request under Wis. Stat. § 196.195(12) does require a Commission finding that the specific provisions enumerated in Wis. Stat. § 196.195(2) have been addressed, Ameritech Wisconsin should be required to demonstrate that effective competition exists in accordance with Wis. Stat. § 196.195(2), either in docket 05-TI-174 or another proceeding.

Organizational Structure and Affiliated Interest Relationships

Ameritech Wisconsin

Organization Structure

The basic organizational structure of Ameritech Wisconsin has not changed since the start of price regulation. Ameritech Corporation continues to be a holding company for subsidiaries primarily engaged in the provision of communications products and services with local exchange companies in Illinois, Indiana, Michigan, Ohio, and Wisconsin.

While the basic organization structure has not changed, there have been a number of significant changes in subsidiary companies. A number of subsidiary companies have been formed to provide telecommunications services in the five-state Ameritech corporate region. These companies include AADS, Ameritech Communications, Inc. (ACI), Ameritech Mobile Communications, Inc. (AMCI), Ameritech New Media (New Media), and Ameritech Payphone Services (APPS).

AADS was formed to provide business customers with advanced data communications services. AADS was originally denied a certificate to operate in Wisconsin. Temporary authorization to operate has now been granted by Commission order and proceedings are underway to look into permanent certification.

ACI was formed as a result of the Federal Act to provide in-region interLATA, out-of-region interLATA, and international telecommunications services. Currently, ACI is authorized to provide resale telecommunications service and facilities-based intrastate telecommunications service in the GTE Wisconsin service territories in Wisconsin. AMCI provides wireless communications to its customers, including cellular mobile telephone service and equipment and paging products and services. New Media was

formed to offer cable television services. APPS offers payphone services in those areas where Ameritech is not the local service provider.

In addition to the overall corporate structure where the company structured its business around geographically based subsidiaries (Illinois Bell, Indiana Bell, etc.), Ameritech corporate is organized by business units. The first full year of operating under an organizational structure that assigns each customer to a business unit was 1994. These business units are aligned by business sector as follows:

Table 14-1
Ameritech Business Units

Business Sector	Business Unit
Consumer & business services	Consumer services Small business services Enhanced business services Custom business services Communications
Communications & information products	Advertising services Pay phone services Long distance industry services Information industry services Network services New media
Other strategic units	Cellular services Capital services International Security monitoring services

Revenues by business unit have fluctuated from 1994 to 1997. The percent of total revenues by business units are shown in the following table.

Table 14-2

Ameritech-Percent of Revenue by Business Unit

Business Unit	1994	1997
Consumer	33%	31%
Custom, enhanced, and small business	28	27
Long distance	16	13
Advertising	8	11
Cellular, including paging	7	7
All other	8	11
Total	100%	100%

On May 10, 1998, Ameritech Corporation and SBC Communications, Inc. (SBC), entered into an Agreement and Plan of Merger (Merger Agreement). The Merger Agreement provides for a business combination of SBC and Ameritech Corporation. Upon consummation of the proposed merger, SBC will own 100 percent of Ameritech Corporation's stock. Ameritech Corporation will operate as a wholly owned subsidiary of SBC. According to the joint application before the Illinois Commerce Commission, the merger is expected to lead to increased growth, enhanced competitiveness, and improved efficiencies. Applications seeking approval of the merger have been filed with the FCC, the Illinois Commerce Commission, and the Ohio Public Utilities Commission. In addition, the Indiana Utility Regulatory Commission has opened a proceeding on its motion to investigate the impact of the merger. According to Wis. Stat. § 196.80 the Commission does not have prior approval authority for mergers involving telecommunications utilities.

In addition to the merger with SBC, another event that impacts on the organization of Ameritech Wisconsin is the proposed sale of 19 exchanges to CenturyTel. This sale will be effective approximately December 1, 1998, and involve approximately 85,000 access lines. The 19 exchanges are located throughout Ameritech Wisconsin's current service territories. These exchanges are among the lowest density exchanges in Ameritech Wisconsin's service territory in the state.

As a result of the business unit reengineering discussed above, Ameritech corporate reduced its core landline telephone business work force by about 11,500 employees. In addition, Ameritech corporate has consolidated certain operations such as the customer care centers in Milwaukee and Lansing, Michigan. As a result of these changes, Ameritech Wisconsin has reduced its employees in Wisconsin from 6,191 (1,094 supervision and management employees and 5,097 non-management employees) at the end of 1994 to 4,088 (612 supervision and management employees and 3,476 non-management employees) at the end of 1997. Total employees per 1,000 access lines decreased from 3.14 to 1.88 over this same period.

One indication of the direction that Ameritech corporate has taken since 1994 is the level of revenues for different classes of service. Based on the annual reports to stockholders for 1994 and 1997, the following table shows how revenues from the major services have fluctuated during this period for Ameritech corporate.

Table 14-3
Revenues by Class of Service

(\$ millions)

Class of Service	1997	1994	Increase (Decrease)	% Change
Local	6,413	5,337	1,076	20.2%
Network Access:				
Interstate	2,485	2,218	267	12.0%
Intrastate	619	612	7	1.1%
Long Distance	1,384	1,456	(72)	(4.9)%
Directory, Cellular, and Other	5,097	2,946	2,151	73.0%

Affiliated Transactions

Transactions between Ameritech Wisconsin and its affiliates totaled over \$200 million in 1997. Affiliated transactions made up over 46 percent of total controllable expenses in 1997, an increase from 30 percent in 1994. A summary of transactions for 1994 and 1997 based on information filed with the FCC is shown below:

Table 14-4
Ameritech Wisconsin Affiliated Transactions

	1997	1994	Increase (Decrease)	% Change
Affiliated Interest Transactions:				
Sales	\$29,691,000	\$62,432,000	\$(32,741,000)	(52.44)%
Purchases	\$192,558,000	\$167,722,000	\$24,836,000	14.81%
Sales per Access Line	\$13.68	\$31.70	\$(18.02)	(56.85)%
Purchases per Access Line	\$88.71	\$85.17	\$3.54	4.16%

GTE Wisconsin

Organization Structure

GTE North is a wholly owned subsidiary of GTE Corporation (GTE). GTE North operates in the states of Illinois, Indiana, Michigan, Ohio, Pennsylvania, and Wisconsin. GTE provides local service in 28 states and wireless service in 17 states. In 1997, GTE remodeled its telephone operations group and added three new business units. GTE Network Services (GTENS) was formed to manage GTE's extensive local telephone network. GTENS is also responsible for all wholesale operations to other telecommunications companies. GTE Communications Corporation (GTECC) is a CLEC and was formed to provide local, long-distance, wireless, and data services. GTECC is currently authorized to provide resale services in Wisconsin. GTE Business Development was formed to review marketing strategy and market response on behalf of all business units.

A number of subsidiary companies have been formed to provide telecommunications' services in the GTE states. In addition to GTENS and GTECC, these companies include GTE Long Distance (Long Distance), GTE Wireless (Wireless), and GTE Internetworking, Inc. (GTEII). Long Distance was formed to provide long distance services to customers in all 50 states. Long Distance is not certified to provide service in Wisconsin at this time. Wireless provides wireless telecommunications products and services in 73 metropolitan statistical areas, 53 rural statistical areas, and three major trading areas. GTEII offers managed access to the Internet and a variety of value-added services for businesses and other organizations.

On July 28, 1998, GTE and Bell Atlantic Corporation (Bell Atlantic) announced their agreement to combine the two parent corporations in a merger. Upon consummation of the proposed merger, Bell Atlantic will own 100 percent of GTE's stock and GTE will operate as a wholly owned subsidiary of Bell Atlantic. GTE Wisconsin will continue to provide service in Wisconsin. According to the joint application before the FCC, the merger will promote vigorous competition in telecommunications markets across the country and make possible exciting new services and other benefits for consumers nationwide by breaking down the geographic and product-line divisions that have limited full-scale competition. Applications seeking approval of the merger have been filed with the FCC, the Illinois Commerce Commission, and the Ohio Public Utilities Commission. According to Wis. Stat. § 196.80 the Commission does not have prior approval authority for mergers involving telecommunications utilities.

On November 5, 1998, GTE announced plans to sell or trade about 1.6 million of its 21.5 million total domestic local access lines. Properties offered include some of the GTE exchanges in Wisconsin. GTE's intent is to give preference to bidders whose proposals involve purchasing or trading an entire regional cluster. GTE's goal is to

reach definitive agreement for all properties by mid-1999. Properties offered include approximately 40 percent of the exchanges in Wisconsin.

GTE has taken a number of actions to consolidate its telephone operations. As a result of these changes, GTE has reduced its employees in Wisconsin from 1,369 (204 supervision and management employees and 1,165 non-management employees) at the end of 1994 to 1,020 (160 supervision and management employees and 860 non-management employees) at the end of 1997. Total employees per 1,000 access lines decreased from 3.22 to 2.13 over this same period.

One indication of the direction that GTE has taken since 1994 is the level of revenues for different classes of service. Based on the annual reports to stockholders for 1994 and 1997, the following table shows how revenues from the major services have fluctuated during this period.

Table 14-5
GTE Revenues by Class of Service
(\$ millions)

Class of Service	1997	1994	Increase (Decrease)	% Change
Local	6,607	5,137	1,470	28.6%
Network Access	4,923	4,348	575	13.2%
Long Distance	2,429	3,285	(856)	(26.6)%
Directory, Cellular, and Other	9,301	6,758	2,543	37.6%

Affiliated Transactions

Transactions between GTE Wisconsin and its affiliates in Wisconsin totaled less than \$60 million in 1997. Affiliated transactions made up only 8 percent of total controllable expenses in 1997, a decrease from 63 percent in 1994. A summary of transactions for 1994 and 1997 based on information filed with the Commission is shown below:

Table 14-6
GTE Wisconsin Affiliated Transactions

	1997	1994	Increase (Decrease)	% Change
Affiliated Interest Transactions:				
Sales	\$2,000	\$2,953,000	\$(2,951,000)	(99.93)%
Purchases	\$57,781,000	\$106,597,000	\$(48,817,000)	(45.80)%
Sales per Access Line	\$0.00	\$6.95	\$(6.95)	(100.00)%
Purchases per Access Line	\$120.58	\$250.76	\$(130.18)	(51.91)%

Conclusion

Both organizations are setting themselves up for competition by forming subsidiaries to offer a wide variety of competitive services. This change in direction can be seen by the decreases in long distance revenues from 1994 to 1997, and the large increases in directory, cellular, and other revenues. At the same time local revenues continue to show healthy increases at the corporate level. Other signs of positioning themselves for competition are the reductions in employees which indicates that both companies are trying to streamline their operations. In addition, Ameritech Wisconsin is further streamlining operations by selling off many of its mostly rural exchanges throughout the state. GTE has recently announced plans to dispose of properties throughout the country including approximately 40 percent of the exchanges in Wisconsin. Finally, both companies are pursuing mergers with other telecommunications giants to further position themselves for competition.

Over the years, both organizations have made heavy use of affiliated transactions. While Ameritech Wisconsin continues to make heavy use of affiliates in its business operations, GTE Wisconsin has shown large reductions in the level of affiliate transactions. These reductions, however, may only be due to a change in classification of charges flowing through GTE Telephone Operations as other than affiliated charges.

Summary of Recommendations - Statutory

Staff recommendations related to statutory changes for consideration by the legislature, can be found in Part 5 of the report and is summarized below:

Part 5-Competition

- Wis. Stat. § 196.196(1)(e) should be modified to allow Commission authority to lower the price cap index to reflect significant changes in cost allocations to an essential service, or significant decreases in costs of such services which are outside of the control of the telecommunications utility.

Summary of Recommendations – Wis. Admin. Code

Staff recommendations related to changes in Wis. Admin. Code ch. PSC 163 to be addressed in a rulemaking docket can be found in Part 4 of the report and are summarized below:

Part 4-Wis. Admin. Code ch. PSC 163

- The time allowed under Wis. Admin. Code § PSC 163.04(8)(a) to calculate the annual allowed rate increase or required decrease should be extended.
- The incentive and penalty mechanism values set forth in Wis. Admin. Code § PSC 163.04(2)(g) should be modified to increase the weightings for quality of service and decrease the weightings for infrastructure. The maximum incentive or penalty for Ameritech Wisconsin should be the same as the maximum for GTE Wisconsin. The penalty for inadequate infrastructure investment should be eliminated.
- The factors to consider and the process for establishing infrastructure investment components and benchmarks should be redefined. Infrastructure incentives should be optional based on the annual filing of infrastructure commitments by the applicable utility.
- The discretionary incentive or penalty should be modified to only be based on customer education programs.
- The method for calculating the percentage change in the GDPPI as set forth in Wis. Admin. Code § PSC 163.04(2)(a) should be clarified.
- The quality of service components listed in Wis. Admin. Code § PSC 163.04(2)(c)2., should be redefined and expanded.

- As part of any rulemaking docket to make the changes recommended above, the Commission should also examine the current productivity factors pursuant to Wis. Stat. § 196.196(1)(c) and Wis. Admin. Code §§ PSC 163.04(2)(b) and (bm).

Summary of Recommendations –Other

Staff recommendations which can be accomplished through a Commission order can be found in Part 2, Part 5, Part 11, Part 12 and Part 13 of the report and are summarized below:

Part 2-Wis. Stat. § 196.196

- Reviews of the level of price regulation should be completed every five years until the transition to competition is complete. The time period may be modified by a party filing a complaint or a major change occurring that justifies a change in the level of regulation for a price-regulated utility. The list of issues and criteria for analysis that was used in this proceeding for subsequent reviews of price regulation should be used for all subsequent reviews. This list is shown in Appendix A to this report. In addition, the process used in this proceeding should also be used. The process includes the price-regulated telecommunications utilities filing of a report on the impact of price regulation since the last review, staff preparing a report on its findings and recommendations for going forward, parties making other proposals, a hearing process, and a final Commission order.

Part 5-Competition

- The Commission should put together a staff work group to monitor the level of competition and make periodic reports to the Governor and the Legislature as called for in the Blue Ribbon Task Force report. This staff team should work with an industry group to determine: (1) what services should be the subject of the review; (2) what information is currently available and how can it be used; (3) what additional information is available; (4) what process should be used for evaluating the level of competition; and (5) what information should be reported to the Governor and Legislature.

Part 11-Customer Impact

- The Commission should initiate an investigation to determine whether additional services should be subject to price regulation under Wis. Stat. § 196.196(1).

Part 12- Accounting, Financial Reporting and Monitoring, and Financial Results

- Ameritech and GTE should be directed to continue to file rate-of-return (ROR) reports with the Commission, albeit in a more abbreviated form. Commission staff's authority to request clarification and/or perform further analysis of the filed information should be preserved.
- Ameritech Wisconsin and GTE Wisconsin should file an annual report on an SR basis more akin to that required of cooperatives, effective with the 1999 calendar year. This annual report should contain the same information as found in the current annual reports filed by telecommunications cooperatives and the additional information discussed in Part 12.

Part 13-Wis. Stat. § 196.09

- Ameritech Wisconsin (and GTE Wisconsin, if it requests such relief) should be granted the ability, subject to the certain conditions, to use whatever depreciation rates it deems appropriate for Commission annual reporting and intrastate earnings monitoring reporting purposes, if the waiver request under Wis. Stat. § 196.195(12) does not require a Commission finding that the specific provisions enumerated in Wis. Stat. § 196.195(2) have been addressed. If it is determined by the Commission that the waiver request under Wis. Stat. § 196.195(12) does require a Commission finding that the specific provisions enumerated in Wis. Stat. § 196.195(2) have been addressed, Ameritech Wisconsin should be required to demonstrate that effective competition exists in accordance with Wis. Stat. § 196.195(2), either in docket 05-TI-174 or another proceeding.